



SCANGROUP
ANNUAL REPORT 2013

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NOTICE OF THE ANNUAL GENERAL MEETING 2014

Notice is hereby given that the 2014 Annual General Meeting of Scangroup Limited will be held at the Moi International Sports Center Kasarani - **Safaricom Indoor Arena**, Nairobi, Kenya on Friday 30 May 2014 at 11.00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To read the Notice convening the meeting.
2. To receive, consider and adopt the Financial Statements for the year ended 31 December 2013 together with the reports of the Directors and Auditor thereon.
3. To consider and approve a first and final dividend totalling Sh 151,546,041 being Sh 0.40 per share for the year ended 31 December 2013 payable on or about 30 June 2014 to Shareholders on the Register of Members at the close of business on 30 May 2014.
4. To approve the remuneration of the Directors as provided in the accounts for the year ended 31 December 2013.
5. To re-elect Director:

In accordance with Article 93 of the Company's Articles of Association, Mr. Richard Omwela retires by rotation and being eligible, offers himself for re-election.
6. To note that Deloitte & Touche continue in office as auditors of the Company in accordance with the provisions of Sec. 159(2) of the Companies Act and to authorize the Directors to set their remuneration for the ensuing financial year.

By Order of the Board

Margaret M. Kipchumba
Company Secretary
29th April 2014
Nairobi

Notes:

1. A Member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. A Proxy Form may be downloaded from the Company's website, www.scangroup.biz, or obtained from the Registrar, Comp-rite Kenya Limited at The Crescent, Off Parklands Road, Crescent Business Centre 2nd Floor, P.O. Box 63428 - 00619, Nairobi. To be valid, a Proxy Form must be duly completed by a Member and must either be lodged with the Registrar at the above given address or posted so as to reach the Registrar not later than 11.00 a.m. on Wednesday 28 May 2014.
2. In accordance with Articles 152 and 148 of the Company's Articles of Association, the Annual Report and financial statements may be viewed on the Company's website, www.scangroup.biz, or obtained from the Registrar's office at the address given above.
3. Registration of Members and proxies attending the Annual General Meeting will commence at 8 a.m. on Friday 30 May 2014 and will close at the conclusion of the meeting. Members and proxies will be required to produce a national identity card, a passport or other acceptable means of identification. CDS account numbers or Member numbers will also be required for ease of the registration process.
4. Courtesy transport will be provided for Members on the day of the meeting between 7.30 a.m. to 10.00 a.m. from town (pick-up and drop-off points: behind Kencom House - Moi Avenue, Nairobi) to the venue of the meeting and back to town at the conclusion of the meeting.

BOARD OF DIRECTORS

DAVID HUTCHISON

Chairman and Independent Non-Executive Director

David, age 69, is a Certified Public Accountant and formerly Senior Partner of Ernst & Young Eastern Africa. He has many years experience in audit, tax advice, financial management, reconstruction and consulting covering many sectors across various countries. David is a Non-Executive Director of ICEA Lion General and Life companies, East Africa Reinsurance Company Limited, East African Packaging Industries Limited (Chairman), Prime Bank Limited, Synresins Limited and is a Chairman of a number of companies within The Banda educational and property groups.

BHARAT THAKRAR

Chief Executive Officer

Bharat, age 62, is the founder shareholder of Scangroup. He has over 40 years working experience in the Advertising and Communications industry. He holds a Diploma in Advertising and Marketing from the Communications and Marketing Foundation - UK. He is a former Chairman of the Advertising Practitioners Association (APA) in Kenya. He has undergone various Executive Management Courses including one at the Harvard Business School.

RICHARD OMWELA, OGW

Independent Non-Executive Director

Richard, age 58, holds a Bachelor of Honours Degree in Law (LLB) Upper Class Division from the University of Nairobi, a Diploma in Law from the Kenya School of Law and is an advocate of the High Court of Kenya. Richard is the Managing Partner of Hamilton Harrison and Mathews Advocates. He is a Member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya. He is the Chairman of Nairobi Airport Services Limited (NAS) and is a member of the Board of Directors of ABC Bank Limited, Solio East Africa, The Monarch Insurance Company Limited, Genesis Kenya Investments Limited and Octagon Pension Services Limited.

MUCHIRI WAHOME

Independent Non-Executive Director

Muchiri, age 51, has over 23 years of retail experience and is currently the Chief Executive Officer of Deacons Group of Companies. He is a Non Executive Director of Tea Brokers E.A ,East African Packaging Industries and Kiko Romeo Limited. He is also the Chairman of the Board of Governors of Moi Equator Girls Secondary School . In 2005 he was awarded the Head of State commendation medal for implementing performance contracts with public bodies. Muchiri is fellow of the Aspen Leadership Center.

ANDREW SCOTT

Non-Executive Director

Andrew, age 45, is Chief Operating Officer for WPP in Europe and is also WPP's Director of Corporate Development leading the Group's global Mergers & Acquisitions activity. Prior to joining WPP, Andrew was a strategy consultant at LEK Consulting. He holds an MBA with distinction from INSEAD.

LAURENCE MELLMAN

Non-Executive Director

Laurence, age 48, is Director of Special Projects at WPP. He has worked at WPP since 1996 and has undertaken a number of roles in both the parent company and in the operating companies. Currently Laurence is also Chief Operating Officer at The United Network, an advertising agency network within WPP with agencies in Europe and the United States. Prior to joining WPP, Laurence trained as a Chartered Accountant with Pricewaterhouse Coopers in London and Manchester, qualifying in 1991. Laurence holds a degree in Commerce and Accounting from the University of Birmingham in the UK.

MARGARET MUHUNI-KIPCHUMBA

Company Secretary

Margaret, age 40, is Head of Legal and Company Secretary and also serves on the Boards of the Kenyan subsidiaries in this capacity. She is an advocate of the High Court of Kenya and a Certified Public Secretary. She is a Member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and the Institute of Directors - Kenya.

LETTER TO THE SHAREHOLDERS

Dear Shareholder,

We are pleased to present the annual report for Scangroup Limited for the year ended 31 December 2013.

Economy

During 2013 the countries in which the company has operations were largely stable. Growth in Sub-Saharan Africa and the East African Community remained relatively robust with real GDP estimated to have expanded by 5.0% and 6.1%, respectively. This was due to an increase in trade and investment with emerging market economies.

Kenya, which accounts for 68.5% of total billing experienced peaceful elections. However, the elections in the first quarter partly stalled the economy and GDP expanded by only 4.7%. Risk aversion in the lead up to the general election and the transition period led to reduced spending by most clients in Kenya. On a positive note, the NSE 20 share index increased by 19.2%. Annual average inflation eased to 5.7 % in 2013 from 9.4% in 2012. Lower inflation helped increase disposable income, which is one of the most relevant macro economic indicators for the advertising industry. Interest rates also decreased during 2013 giving a further boost to the economy.

Neighbouring countries of Uganda and Tanzania saw their economies expand by 5.6% and 7.0% respectively. Ghana, where the company now has three businesses in operation, saw its economy expand by 7.1% in 2013 on the back of 8.8% growth in 2012.

Nigeria, where the company has an established research business and is continuing to prepare for the launch of additional services, was declared the largest economy in Africa. Re-basing of the GDP puts the services industry at the forefront, much ahead of the oil industry which for a long time has been thought to be the largest contributor to the economy. Political unrest in the north has rocked the country but the overall economic environment continues to be bullish and the decision to host the World Economic Forum on Africa in Abuja in 2014 is a testimony to this.

Industry Performance

The Marketing and Advertising industry in Sub-Saharan Africa is on a growth trajectory fuelled by the ever increasing number of global clients wishing to either enter Sub-Saharan Africa or to increase their marketing investments in the region. Increasing disposable income of consumers, especially in the middle-income group, adds to the importance of the continent to our clients. As marketing communication is necessary to reach consumers, investment in marketing services is likely to increase.

In Kenya, according to IPSOS Synovate market research, the advertising industry is estimated to have grown to Sh. 94.5 billion in 2013, a 4.6% increase from 2012. 47.2% of all ad-spend is directed to Radio. Ad-spends on TV commercials, which for its highest recall ratio is considered as the best medium for advertising, has in the last five year seen share of total spends increase from 10% to 40.9%. Use of Digital advertising in marketing communication continues to develop at an impressive pace and is expected to continue for some time. Demand for other service disciplines such as Public Relations and Speciality Communication is also growing.

Clients increasing expectation of better return on media investment has continued to challenge the industry to improve its effectiveness. In a bid to meet client expectations, agencies operating in this region continue to evolve and become more innovative. Association of local or regional players with global agencies who are also looking to diversify into emerging and frontier markets reflects the growing demand for global practices. Our alignment with WPP, is a great example of this and further supports the fact that global clients are looking for partners who are able to offer a cohesive service offering across all continents.

The industry phenomenon in other markets where your company has operations is similar to that of Kenya. As African economies start working as blocs, companies are increasingly starting to seek agencies that can operate across markets and across disciplines. Our long term objective is aligned to this expectation.

Update on introduction of new services and markets

Our growth strategy continues to be based on delivering "Integrated Marketing Communication" (IMC) to our clients across all marketing disciplines and across all geographies in Sub-Saharan Africa. We believe that delivering global best practice across multiple markets to our clients will cement our relationships with them. In line with this strategy, during the year the Company continued to develop its offer in countries outside Kenya with a growing presence in Ghana, Tanzania, South Africa and Uganda. The transaction with WPP in December 2013 further strengthens our position as the leading provider of marketing services across Sub-Saharan Africa.

As previously disclosed, our Scanad Nigeria operation encountered a legal challenge early in its operations regarding a dispute with an Ogilvy affiliate. The matter is still before the Courts in Nigeria and the management is hoping for a positive and timely resolution of this matter. On a positive note, our research unit, Millward Brown continues to show strong growth in the Nigerian market.

LETTER TO THE SHAREHOLDERS (CONTINUED)

Company's Financial Performance

In 2013, the Group's billings increased by 14%, however revenues fell by 2%. In our business, billings do not necessarily have a correlation with revenues because more than 50% of our revenues are from retainer fees which are not directly co-related to the level of client spend on media advertising.

Kenya is still our primary market in terms of contribution. However, the dependence on Kenya continues to reduce as we grow our presence in new markets. In 2013 Kenya as a market contributed 60% of the total revenues, and Pan-African clients serviced from Kenya delivered a further 14%, so in total 74% was delivered from Kenya. This was down from 80% in 2012 and we expect this dependence to drop further in 2014 as our operations outside of Kenya grow faster than the Kenyan market.

In terms of marketing discipline diversification, the trend that was seen in 2012 continued in 2013 with the concentration in Advertising and Media services continuing to reduce. This has evolved from 87% in 2011 to 75% in 2013 and we expect it to fall further in 2014 as the full impact of investments in Digital, Public Relations and Research start to bear fruit.

As would be reasonably expected, the continuing investment in growth disciplines, in particular Digital and Public Relations and further developing our presence and potential in Ghana, Nigeria, South Africa and Tanzania, led to a 16% increase in operating costs. Profit Before Tax (PBT) was further impacted by a 70% decline in interest income as a result of lower interest rates and a lower average cash balances due to investment in new markets and working capital. At a PBT level the Company benefited from a gain arising on the revaluation of our investment in Millward Brown following the transaction with Cavendish Square Holdings BV (WPP) in December. These factors contributed to a 3% decline in reported PBT, but due to a lower effective tax rate the Earnings Per Share (EPS) increased by 22%.

Proposed Dividend

Your Board has recommended for approval at the Annual General Meeting the payment of the first and final dividend of Sh. 0.40 per share for 378,865,102 shares amounting to Sh. 151,546,041 for the year ended 31 December 2013 (2012: Sh. 0.60 per share for 278,749,128 shares amounting to Sh. 170,873,476). Whilst the EPS increased by 22%, it should be noted that without the revaluation gain (which was a non-cash item) the underlying EPS had dropped by 71%. In spite of this decline in underlying EPS, the company is confident about the trading outlook and the Board's dividend recommendation reflects this.

Board

The Directors who held office in 2013 and up to the date of this report are listed on page 3. With effect from 31 December 2013 Manish Shah resigned from the Company to pursue other interest and stepped down from the Board.

Corporate Governance

The Board and its committees, the Audit & Risk Management Committee, the Board IT Oversight Committee and the Nominating and Remuneration Committee continue to discharge their oversight mandates on the Company's financial activities, internal controls, technology infrastructure, risk management practices and human resource management. A statement on corporate governance is set out on page 6.

Corporate Social Responsibility

In 2013, Scangroup collaborated with the Kenya Society of Anaesthesiologists (KSA) and Lifebox Foundation, by providing funding for Pulse Oximeter packages to enhance surgical safety in Kenya. A Pulse Oximeter monitors the level of oxygen in a patient's bloodstream during surgery and sounds an alarm if it detects an unsafe change in oxygen levels, thus making it one of the most critical tools for making surgery safe. Scangroup will continue to support KSA and Lifebox during 2014.

Appreciation

We would like to thank our clients in all the countries we operate in for their continued patronage without which our vision to be the leading marketing services company in Sub-Saharan Africa would not be achievable. We would also like to thank our shareholders for the confidence demonstrated in the management and leadership of the company and last but not least, our dedicated and committed staff for their pursuit of excellence in service delivery that has helped achieve the results.

David Hutchison
Chairman

Bharat Thakrar
CEO

29 April 2014

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

The Board of Directors is responsible for good corporate governance of the Group and attaches great importance to the need to conduct business and operations of the Group with integrity, transparency and accountability. The Board is committed to complying with legislation, regulation and best practice, it has in particular adopted the Capital Markets Authority guidelines on corporate governance practices by public listed companies in Kenya. The Board is also committed to the consideration and implementation of initiatives to improve corporate governance for the benefit of all shareholders.

BOARD AND DIRECTORS

During the year 2013, the Board comprised two executive Directors, Mr. Thakrar and Mr. Shah and five Non-Executive Directors, three of whom, Mr. Hutchison, Mr. Omwela and Mr. Wahome are Independent Directors. The independent directors ensure that independent thoughts are brought to bear on Board decisions. Independent directors have no management or business relationships with the Company that could influence their independence. Mr. Scott and Mr. Mellman are appointed by Cavendish Square Holding B.V. in accordance with the Company's Articles of Association.

All the directors except the executive directors and the directors appointed by Cavendish Square Holding B.V. are required to retire at regular intervals and may offer themselves for re-election.

The Directors who held office during the year under review and to the date of this report are listed on page 10

The Board retains effective control over the Company's operations and has established a number of committees to assist in providing detailed attention to specific areas. The Board and committees are supplied with relevant, accurate and timely information to enable them discharge their responsibilities. In addition, their mandates ensure unrestricted access to company information and the ability to obtain expert advice, at the Company's expense, whenever necessary. The Committees of the Board are as follows:

1. Audit & Risk Management Committee

Membership of the Audit & Risk Committee includes, three Non-Executive Directors: Mr. Hutchison (Chairman), Mr. Omwela and Mr. Scott. The Chief Executive Officer, the Chief Financial Officer and Internal Auditor are regular invitees to the Committee's meetings. In addition, the external auditor may be invited to attend as necessary, but at least once a year. The Committee's responsibilities include; review of financial statements, compliance with accounting standards, oversight on internal control systems and the internal audit function, identification, assessment and effectiveness of business risk management processes and liaison with the external auditor.

2. Nominating & Remuneration Committee

The Nominating & Remuneration Committee comprises of Mr. Hutchison (Chairman), Mr. Wahome, Mr. Scott and the CEO, Mr. Thakrar. The Committee meets as required but at least once a year. The Committee is responsible for identifying and nominating for approval by the Board, candidates to fill the Board vacancies as and when the need arises and in particular, gives consideration to succession planning taking into account the challenges and opportunities facing the Company and ensure that the necessary skills and expertise are available on the Board in future. The Committee is responsible for; monitoring and appraising the performance of senior management, reviewing human resources policies and determining the Group's remuneration and incentive programmes. Executive Directors and / or management are not present when their remuneration is discussed.

3. Board IT Oversight Committee

Board IT Oversight Committee was constituted in 2012 to oversee systems development and implementation in the Group. The members of the Committee are, Mr. Hutchison and Mr. Thakrar. The Chief Information Officer who heads the management IT Steering Committee is invited to the meetings.

The committees report to the Board at each meeting highlighting matters discussed at their respective meetings and recommended actions.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the CEO are separate and distinct.

DIRECTORS EMOLUMENTS AND LOANS

The aggregate amount of emoluments paid to Directors during 2013 are disclosed on page 36. Loans given to Executive Directors are disclosed on page 43. No loan was given to the Non-Executive Directors during the year. Directors interest in the shareholding of the Company is set out on page 8.

CORPORATE GOVERNANCE (CONTINUED)

DEALING IN COMPANY'S SHARES

The Company complies with CMA's rules on Insider Trading and has formulated a policy that governs the trading of Company's shares by Directors and staff. Subject to compliance with the CMA rules on Insider Trading, Directors and staff are only permitted to deal in the Company's shares between 3rd and 30th days after the announcement of half yearly results and final results and from 3 days after the release of the annual report until 30 days after the Annual General Meeting. In addition to the restrictions, permission of a sub-committee of the Board is required before trading in the Company's shares.

INTERNAL CONTROLS

The Group has defined financial and operational performance measurement indicators and has implemented a series of financial controls to ensure complete and accurate reporting of financial and operational information. It periodically upgrades its management information reporting system to strengthen the controls and to provide information more efficiently. Procedures are in place to ensure adequate physical controls over the Company's assets and that the organisation remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the internal control systems, the Board takes into account the results of all the work carried out by the Internal Auditor or any other audit on the activities of the Group.

BUSINESS ETHICS

Honesty, integrity and respect for all stakeholders are the core values of the Group. These values determine the way in which the Group conducts business and are epitomised in the Code of Conduct. The Code of Conduct also emphasises the Group's zero tolerance to bribery and corrupt practices. All employees are required to undergo ethics and anti-bribery training to reaffirm these values.

INVESTOR RELATIONS

Information on the Company's shareholding is provided on page 8. The Company values its relationship with the shareholders and the investment community and ensures regular and reliable communication through publication of its financial performance, publication of the Annual Report, holding of the Annual General Meeting and other general meetings prescribed by law. The Company's primary communication channel remains the Nairobi Securities Exchange and media releases consistent with legal and regulatory requirements.

SHAREHOLDING

SUMMARY OF SHAREHOLDERS AS AT 31 DECEMBER 2013

Category	Number of Shareholders	Number of shares held	% of issued share capital
Foreign Investors	327	265,557,457	70.09%
East Africa Individuals	24,229	68,040,920	17.96%
East Africa Institutions	1,254	45,266,725	11.95%
Total	25,810	378,865,102	100.00%

SHAREHOLDERS BY RANGE AS AT 31 DECEMBER 2013

Range	Number of Shareholders	Number of shares held	% of issued share capital
1 -500	19,166	6,630,534	1.75%
501 - 1,000	3,761	2,527,441	0.67%
1,001 - 5,000	2,144	4,267,642	1.13%
5,001 - 10,000	272	1,855,677	0.49%
10,001 - 50,000	286	5,897,017	1.56%
50,001 - 100,000	63	4,564,786	1.20%
100,001 - 500,000	83	19,141,369	5.05%
500,001 - 1,000,000	13	8,865,088	2.34%
Above 1,000,000	22	325,115,548	85.81%
Total	25,810	378,865,102	100.00%

TOP 10 INVESTORS AS AT 31 DECEMBER 2013

Rank	Name	Number of shares held	% of issued share capital
1	Cavendish Square Holding BV	176,903,560	46.69%
2	Bharat Thakrar	51,811,360	13.68%
3	Standard Chartered Nominees, A/C KK 13084	37,375,400	9.87%
4	Ogilvy South Africa (Proprietary) Limited	12,907,856	3.41%
5	White, Andrew John Laird	12,206,000	3.22%
6	Standard Chartered Nominees, Non-Resident A/C 9273	5,255,800	1.39%
7	Standard Chartered Nominees, Non-Resident A/C 9296	3,843,500	1.01%
8	Standard Chartered Nominees, Non-Resident A/C 9944	2,689,600	0.71%
9	Standard Chartered Nominees, Non-Resident A/C 9057	2,641,560	0.70%
10	Chase Bank (Kenya) Limited	2,342,686	0.62%
	Total	307,977,322	81.30%

DIRECTORS' INTEREST IN THE SHAREHOLDING AS AT 31 DECEMBER 2013

Name	Number of shares held	% of issued share capital
Bharat Thakrar	51,811,360	13.68%
David Hutchison	1,200	0.00%
Richard Omwela	2,520	0.00%
Total	51,815,080	13.68%

HISTORICAL FINANCIAL TREND

SUMMARY OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR

All figures in Sh'000	2013	2012	2011	2010	2009
Billing	14,168,001	13,056,890	11,763,664	11,363,839	5,920,012
Revenue	3,850,394	4,231,835	3,597,260	2,345,554	1,624,029
Investment Income	40,347	166,133	139,916	174,100	92,221
Profit Before Taxation	1,038,416	1,095,061	1,280,100	838,396	544,100
Tax Charge	(171,058)	(343,052)	(368,984)	(197,811)	(142,952)
Profit After Tax	867,358	752,009	911,116	640,585	401,148
Non-controlling Interests	(77,215)	(123,630)	(186,151)	(61,998)	(2,648)
Profit available to Scangroup Shareholders	790,143	628,379	724,965	578,587	398,500
Basic Earning Per Share (EPS) (Sh')	2.70	2.21	2.55	2.13	1.49
Weighted average number of shares (million)	292.78	284.63	284.63	271.38	268.16

SUMMARY OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

All figures in Sh'000	2013	2012	2011	2010	2009
ASSETS					
Non-current assets	2,228,910	911,386	711,351	891,539	719,703
Current assets	10,720,755	7,735,575	7,778,587	7,117,892	3,213,445
Total assets	12,949,665	8,646,961	8,489,938	8,009,431	3,933,148
LIABILITIES					
Non-current liabilities	346,178	358,058	337,430	191,143	11,620
Current liabilities	4,351,702	3,389,273	3,797,599	4,240,483	1,555,306
Equity	8,251,785	4,899,630	4,354,909	3,577,805	2,366,222
Total equity and liabilities	12,949,665	8,646,961	8,489,938	8,009,431	3,933,148

CORPORATE INFORMATION

DIRECTORS

David Hutchison*	Chairman
Bharat Thakrar	Chief Executive Officer
Manish Shah ^	Finance Director (resigned 31 December 2013)
Richard Omwela	
Muchiri Wahome	
Andrew Scott*	
Laurence Mellman*	* British ^Indian

SECRETARY

Margaret Muhuni-Kipchumba
 Certified Public Secretary (Kenya)
 The Chancery, 5th Floor
 Valley Road
 P.O. Box 34537- 00100 Nairobi

REGISTERED OFFICE

The Chancery, 5th Floor
 Valley Road
 P.O. Box 34537- 00100 Nairobi
 Telephone: +254 (20) 2 799 000

AUDITORS

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

PRINCIPAL BANKERS

CFC Stanbic Bank Limited
 Upper Hill Medical Centre Branch
 P.O. Box 2492 – 00200 Nairobi

LEGAL ADVISERS

Daly & Figgis Advocates
 ABC Place, 6th Floor
 Waiyaki Way
 P.O. Box 40034 – 00100 Nairobi

SHARE REGISTRARS

Comp-rite Kenya Limited
 The Crescent, Off Parklands Road
 Crescent Business Centre, 2nd floor
 P.O. Box 63428 - 00619 Nairobi

CORPORATE INFORMATION (CONTINUED)

GROUP COMPANIES, BUSINESS ACTIVITIES AND GEOGRAPHIC PRESENCE

BUSINESS ACTIVITIES	COUNTRY	BUSINESS ACTIVITIES	COUNTRY
Advertising		Media investment management	
Scanad Burundi Limited SPRL	Burundi	Media Compete East Africa Limited	Kenya
STE Scanad DRC	DRC	Mindshare Kenya Limited	Kenya
Scanad Ghana Limited	Ghana	Scangroup (Malawi) Limited	Malawi
Ogilvy Ghana Limited	Ghana	MIA Mauritius Limited	Mauritius
Scanad Kenya Limited	Kenya	Scangroup Mozambique Limitada	Mozambique
J. Walter Thompson Kenya Limited	Kenya	Scangroup (Zambia) Limited	Zambia
Scanad Africa Limited	Kenya		
Grey East Africa Limited	Kenya	Field marketing	
Redsky Limited	Kenya	Smollan East Africa Limited	Kenya
Ogilvy & Mather (Eastern Africa) Limited	Kenya		
Ogilvy Africa Media Limited	Kenya	Public relations	
Blueprint Marketing Limited	Kenya	Hill & Knowlton East Africa Limited	Kenya
Ogilvy Africa Limited	Kenya	Ogilvy Public Relations Limited	Kenya
Ogilvy Kenya Limited	Kenya	Hill & Knowlton Strategies Uganda Limited	Uganda
Scanad Nigeria Limited	Nigeria	Hill + Knowlton Strategies SA Pty Limited	South Africa
Scanad Rwanda Limited	Rwanda		
O&M Africa B.V. (Branch Office)	South Africa	Digital advertising	
Scanad Tanzania Limited	Tanzania	Squad Digital Limited	Kenya
J. Walter Thompson Tanzania Limited	Tanzania	Squad Digital Nigeria Limited	Nigeria
Ogilvy Tanzania Limited	Tanzania		
Scanad Uganda Limited	Uganda	Investment holding company	
JWT Uganda Limited	Uganda	Scanad East Africa Limited	Kenya
		Scangroup Mauritius Holdings Limited	Mauritius
Advertising research		Scangroup (Mauritius) Limited	Mauritius
Millward Brown West Africa	Ghana	Media Buying Africa Limited	Mauritius
Millward Brown East Africa Limited	Kenya	Millward Brown Mauritius Limited	Mauritius
Millward Brown Nigeria Limited	Nigeria	Ogilvy Mauritius Holding Limited	Mauritius
		Scanad Nigeria Holdings Limited	Mauritius
Speciality communication		H+K Strategies Africa Holdings Limited	Mauritius
Roundtrip Limited	Kenya	Scangroup Digital Holdings Limited	Mauritius
		O&M Africa B.V.	Netherlands

DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 31 December 2013 which discloses the state of affairs of Scangroup Limited (the Company) and its subsidiaries (together, the Group).

PRINCIPAL ACTIVITY

The principal activity of the Group is the provision of integrated marketing communication services, which combines seven disciplines viz. advertising, media investment management, field marketing, advertising research, public relations, digital advertising and specialty communications into cohesive marketing strategies for products and services of our customers.

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

	Sh.'000
Profit before taxation	1,038,416
Taxation charge	(171,058)
Profit for the year	867,358
Other comprehensive income	(1,093)
Total comprehensive income for the year	866,265

DIVIDENDS

The directors propose a first and final dividend of Sh. 0.40 per share totalling Sh. 151,546,041 based on 378,865,102 shares in issue (2012: Sh. 0.60 per share totalling Sh. 170,873,477 based on 284,789,128 shares).

The payment of dividend is subject to approval by the shareholders' at the Annual General Meeting. This amount is not included in liabilities as presented in the financial statements. The proposed dividend is payable to all shareholders on the Register of Members at the close of business on 30 May 2014. Dividend payment will be subject to withholding tax where applicable.

DIRECTORS

The current members of the Board of Directors are as shown on page 10. Mr. Manish Shah resigned from the Board with effect from 31 December 2013. Mr. Richard Omwela retires by rotation under the provisions of Article 93 of the Articles of Association and being eligible offers himself for re-election.

AUDITOR

Deloitte & Touche have expressed their willingness to continue in office in accordance with section 159 (2) of the Companies Act.

By Order of the Board

Margaret Muhuni-Kipchumba

Secretary
29 April 2014
Nairobi

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and its subsidiaries as at the end of the financial year and of their operating results for that year. It also requires the directors to ensure that the company and its subsidiaries keep proper accounting records which disclose with reasonable accuracy at any time their financial position of the Company and its subsidiaries. They are also responsible for safeguarding the assets of the Group.

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and its subsidiaries and of their operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company and its subsidiaries will not remain going concerns for at least the next twelve months from the date of this statement.

David Hutchison
Director

Bharat Thakrar
Director

29 April 2014



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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCANGROUP LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Scangroup Limited and its subsidiaries set out on page 16 to page 51 which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated and company statements of changes in equity, and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility for the Financial Statements

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the 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 2013 and the group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCANGROUP LIMITED (CONTINUED)

Report on Other Legal Requirements

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

- (i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
- (iii) the company's statement of financial position (balance sheet) is in agreement with the books of account.

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

Deloitte & Touche
Certified Public Accountants (Kenya)
Nairobi, Kenya
29 April, 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

All figures in Sh.'000	Notes	2013	2012 (Restated)
Billings	7	14,168,001	12,472,198
Direct costs		(10,317,607)	(8,549,435)
Revenue		3,850,394	3,922,763
Interest income		40,347	167,466
Other income		14,721	2,198
Share of profit from joint arrangement	8	91,306	50,873
Gain on revaluation of equity interest	9	605,474	-
Operating and administrative expenses		(3,547,430)	(3,058,750)
Foreign exchange loss		(16,396)	(14,984)
Profit before tax	10	1,038,416	1,069,566
Tax charge	11	(171,058)	(317,557)
Profit for the year	12	867,358	752,009
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
- Exchange difference on translating foreign operations		(1,093)	(7,935)
Total comprehensive income for the year		866,265	744,074
Profit attributable to:			
- Equity holders of the parent company		790,143	628,379
- Non-controlling interests		77,215	123,630
		867,358	752,009
Total comprehensive income attributable to:			
- Equity holders of the parent company		789,891	620,635
- Non-controlling interests		76,374	123,439
		866,265	744,074
Basic earnings per share (Sh.)	13	2.70	2.21
Diluted earnings per share (Sh.)	13	2.70	2.21

Note:

The results for year 2012 were restated to comply with changes in accounting standard IFRS 11 (Joint arrangement). Refer Note 5.1.2.2 for further details.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

All figures in Sh.'000	Notes	31 December 2013	31 December 2012 (Restated)	1 January 2012 (Restated)
ASSETS				
Non-current assets				
Equipment	14.1	544,938	427,567	278,830
Intangible assets	15	5,078	14,228	25,060
Investment in joint arrangement	16	-	130,977	82,815
Other equity investments	17	4,488	5,528	5,411
Deferred tax asset	18	126,223	118,051	74,806
Receivable from related parties	19	-	3,038	6,687
Goodwill	20	1,548,183	315,671	315,671
		2,228,910	1,015,060	7,89,280
Current assets				
Trade and other receivables	21	7,618,004	5,361,947	4,781,997
Work-in-progress		15,931	8,278	32,072
Tax recoverable	11.3	291,209	100,766	134,187
Cash and cash equivalents	22	2,795,611	1,875,595	2,605,241
		10,720,755	7,346,586	7,553,497
Total assets		12,949,665	8,361,646	8,342,777
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	23	378,865	284,789	284,789
Share premium		8,296,150	1,754,388	1,754,388
Revenue (deficit) / reserve		(479,877)	2,236,626	1,807,599
Translation reserve		(6,803)	(6,551)	1,193
Equity attributable to share holders of the holding company		8,188,335	4,269,252	3,847,969
Non-controlling interests		63,450	630,379	506,940
Total equity		8,251,785	4,899,631	4,354,909
Non-current liabilities				
Deferred tax liability	18	10,948	3,224	-
Loan payable to related parties	19	335,230	303,312	298,513
		346,178	306,536	298,513
Current liabilities				
Trade and other payables	24	4,257,599	3,081,765	3,517,925
Tax payable	11.3	80,079	59,690	161,658
Dividends payable	25	14,024	14,024	9,772
		4,351,702	3,155,479	3,689,355
Total equity and liabilities		12,949,665	8,361,646	8,342,777

The financial statements on pages 16 to page 51 were approved and authorised for issue by the Board of Directors on 29 April 2014 and were signed on its behalf by:

David Hutchison
Director

Bharat Thakrar
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

All amounts in Sh.'000	Share capital	Share premium	Revenue (deficit) / reserve	Trans-lation reserve	Attributable to share holders of the holding company	Non-con-trolling interests	Total
At 1 January 2012	284,789	1,754,388	1,807,599	1,193	3,847,969	506,940	4,354,909
Profit for the year	-	-	628,379	-	628,379	123,630	752,009
Other comprehensive income	-	-	-	(7,744)	(7,744)	(191)	(7,935)
Dividend declared - 2011	-	-	(199,352)	-	(199,352)	-	(199,352)
At 31 December 2012	284,789	1,754,388	2,236,626	(6,551)	4,269,252	630,379	4,899,631
At 1 January 2013	284,789	1,754,388	2,236,626	(6,551)	4,269,252	630,379	4,899,631
Shares issued	94,076	6,541,762	-	-	6,635,838	-	6,635,838
Profit for the year	-	-	790,143	-	790,143	77,215	867,358
Acquisition of non-controlling interests	-	-	(3,335,773)	-	(3,335,773)	-	(3,335,773)
Minority interest acquired	-	-	-	-	-	(643,303)	(643,303)
Other comprehensive income	-	-	-	(252)	(252)	(841)	(1,093)
Dividend declared - 2012	-	-	(170,873)	-	(170,873)	-	(170,873)
At 31 December 2013	378,865	8,296,150	(479,877)	(6,803)	8,188,335	63,450	8,251,785

Note:

1. Application of IFRS 11 (refer note 5.1.2.2) and IAS 1 (refer note 5.1.5) does not affect the balances as at 1 January 2012. Hence, a separate line showing the original balance and restated balance is not presented.
2. The company issued 94,075 974 new shares to Cavendish Square Holding B.V. of which 21,355,898 shares were issued for Sh. 85.85 each and the remaining 72,720,076 shares were issued as consideration for equity shares of Ogilvy Africa Limited, Ogilvy Tanzania Limited, O&M Africa B.V., Ogilvy Mauritius Holdings Limited, Ogilvy Kenya Limited, Hill + Knowlton Strategies Africa Holding Limited, Hill & Knowlton East Africa Limited, Millward Brown Mauritius Limited and Millward Brown East Africa Limited purchased from Cavendish Square Holding B.V. (Refer to Note 26)

COMPANY STATEMENT OF FINANCIAL POSITION

All figures in Sh.'000	Notes	2013	2012
ASSETS			
Non-current assets			
Equipment	14.2	160,126	108,392
Investment in subsidiaries	26	6,664,052	1,147,995
Investment in joint arrangement	16	-	6,129
Long term loan to subsidiaries and joint arrangement	19	246,793	50,020
Deferred tax asset	18	30,347	24,114
		<u>7,101,318</u>	<u>1,336,650</u>
Current assets			
Trade and other receivables	21	1,496,445	1,308,018
Due from related parties	19	924,204	594,234
Tax recoverable	11.3	25,686	3,600
Work-in-progress		7,878	-
Short-term deposits		<u>1,606,268</u>	<u>554,487</u>
		<u>4,060,481</u>	<u>2,460,339</u>
Total assets		11,161,799	3,796,989
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	378,865	284,789
Share premium		8,296,150	1,754,388
Revenue reserve		<u>991,369</u>	<u>475,624</u>
Total equity		<u>9,666,384</u>	<u>2,514,801</u>
Current liabilities			
Bank overdraft	27	510,429	312,736
Trade and other payables	24	970,962	955,428
Dividends payable	25	<u>14,024</u>	<u>14,024</u>
		<u>1,495,415</u>	<u>1,282,188</u>
Total equity and liabilities		11,161,799	3,796,989

The financial statements on pages 16 to page 51 were approved and authorised for issue by the Board of Directors on 29 April 2014 and were signed on its behalf by:

David Hutchison
Director

Bharat Thakrar
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

All amounts in Sh.'000	Share capital	Share premium	Revenue reserve	Total
At 1 January 2012	284,789	1,754,388	469,972	2,509,149
Profit for the year	-	-	205,004	205,004
Dividend declared - 2011	-	-	(199,352)	(199,352)
At 31 December 2012	284,789	1,754,388	475,624	2,514,801
At 1 January 2013	284,789	1,754,388	475,624	2,514,801
Shares issued for cash consideration	21,356	1,812,048	-	1,833,404
Shares issued for consideration other than cash	72,720	4,729,714	-	4,802,434
Profit for the year	-	-	686,618	686,618
Dividend declared - 2012	-	-	(170,873)	(170,873)
At 31 December 2013	378,865	8,296,150	991,369	9,666,384

Note:

The company issued 94,075 974 new shares to Cavendish Square Holding BV of which 21,355,898 shares were issued for Sh. 85.85 each and the remaining 72,720,076 shares were issued as consideration for equity shares of Ogilvy Africa Limited, Ogilvy Tanzania Limited, O&M Africa B.V., Ogilvy Mauritius Holdings Limited, Ogilvy Kenya Limited, Hill + Knowlton Strategies Africa Holding Limited, Hill & Knowlton East Africa Limited, Millward Brown Mauritius Limited and Millward Brown East Africa Limited purchased from Cavendish Square Holding B.V. (Refer to Note 26)

CONSOLIDATED STATEMENT OF CASH FLOWS

All figures in Sh. '000	Note	2013	2012 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,038,416	1,069,566
Depreciation on equipment	14.1	104,324	89,890
Amortisation of intangible assets	15	8,373	8,373
Provision for bad debts	10	2,345	3,394
Gain on disposal of equipment		(556)	(313)
Gain on revaluation of equity interest	9	(605,474)	-
Share of profit of joint arrangement		(91,306)	(50,873)
Interest income		(40,347)	(167,466)
Cash generated from operating activities before working capital changes		415,775	952,571
Increase in trade and other receivables		(1,696,746)	(569,051)
(Increase) / decrease in work-in-progress		(2,717)	23,796
Increase / (decrease) in trade and other payables		799,173	(436,161)
Decrease in related party balances		3,038	3,649
Working capital changes		(897,252)	(977,768)
Cash generated from operating activities after working capital changes		(481,477)	(25,197)
Tax paid	11.3	(341,560)	(426,431)
Net cash used in operating activities		(823,037)	(451,628)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment	14.1	(188,909)	(243,991)
Proceeds on sale of equipment		6,340	7,447
Purchase of equity shares	26	(31,113)	-
Cash net of borrowings obtained on acquisition		244,175	-
Investment income received		40,347	153,172
Net cash used in investing activities		70,840	(83,372)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	25	(170,873)	(195,100)
Capital received from shareholders	23	1,833,404	-
Net cash generated from / (used in) financing activities		1,662,531	(195,100)
Net increase / (decrease) in cash and cash equivalents		910,334	(730,100)
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At the beginning of the year		1,875,595	2,605,241
Increase / (decrease) during the year		910,334	(730,100)
Effect of fluctuations in exchange rates		9,682	454
Cash and cash equivalents at end of the year	22	2,795,611	1,875,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. STATEMENT OF COMPLIANCE

The consolidated financial statements of Scangroup Limited and its subsidiaries (the Group) for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Kenyan Companies Act. For purposes of the Kenyan Companies Act, the Balance Sheet is represented by the statement of financial position and the profit and loss account is presented in the statement of Profit or Loss and Other Comprehensive Income.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis of accounting, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received upon sell of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The significant accounting policies adopted remain unchanged from the previous year unless mentioned otherwise. The consolidated financial statements are presented in Kenya Shillings and all values are rounded to the nearest thousand (Sh.'000), except when otherwise indicated. Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. Control is achieved when the Company:

- has power over the investee;
- is exposed or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the income and expenses of a subsidiary acquired or disposed of during the year are

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders 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 in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3.1 Change in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in subsidiary that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint arrangement.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

4.2 Investments in associates and joint arrangements

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint arrangement are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint arrangement is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint arrangement. When the Group's share of losses of an associate or a joint arrangement exceeds the Group's interest in that associate or joint arrangement (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint arrangement), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint arrangement.

An investment in an associate or a joint arrangement is accounted for using the equity method from the date on which the investee becomes an associate or a joint arrangement. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint arrangement. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint arrangement, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint arrangement and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint arrangement at the date the equity method was discontinued and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint arrangement is included in the determination of the gain or loss on disposal of the associate or joint arrangement. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint arrangement on the same basis as would be required if that associate or joint arrangement had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint arrangement would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint arrangement or an investment in a joint arrangement becomes an investment in an associate. There is no re-measurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint arrangement but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint arrangement of the Group, profits and losses resulting from the transactions with the associate or joint arrangement are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint arrangement that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.3 Revenue recognition

Revenue comprises commission, fees and rebates earned in respect of media placements and advertising services, measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Revenue is stated exclusive of VAT, sales taxes and other similar levies.

4.3.1 Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the service. The stage of completion of the service is determined as follows:

- retainer fees is recognised by reference to the stage of completion of the contract period, determined as the proportion of the total contract time that has elapsed at the end of the reporting period;
- service income is recognised in the period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

4.3.2 Dividend and interest income

Dividend income from investments is recognised when the group's right to receive payment as a shareholder has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

4.4 Work-in-progress

Work in progress is stated at the lower of cost or net realisable value and represents direct recoverable cost chargeable to specific clients. Attributable profits are only recognised once a job is complete and billed out to client.

4.5 Equipment

Equipment is carried at historical cost less accumulated depreciation and any accumulated impairment losses. The Group assesses the carrying value of its equipment to determine if any impairment has occurred. Where this indicates that an asset may be impaired, the Group applies the requirements of IAS 36 Impairment of Assets in assessing the carrying amount of the asset. This process includes comparing its recoverable amount with its carrying value. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a written down value basis over its estimated useful life, as follows:

- | | |
|-------------------------------------|-------|
| • Computers and accessories | 30% |
| • Motor vehicles | 25% |
| • Furniture, fittings and equipment | 12.5% |

4.6 Intangible Assets

Intangible assets represents customer contracts acquired. These are carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the life of the contracts.

4.7 Taxation

The amount of tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the year end.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences unless specifically exempted by IAS 12 on Income Taxes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each year end and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in Subsidiaries and Associates and Interests in Joint Arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on enacted or substantively enacted legislation. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4.8 Leases

The Group's leases are classified as finance leases whenever the terms of the lease substantially transfer all risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at the inception of the lease at the lower of their fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the consolidated income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the consolidated income statement as it is incurred.

Operating lease rentals are charged to the consolidated income statement on a straight-line basis over the lease term. Any premium or discount on the acquisition of a lease is spread over the life of the lease on a straight-line basis.

4.9 Foreign currencies

Assets and liabilities at the reporting date which are expressed in foreign currencies are translated at the rates of exchange ruling at year end. Transactions during the year which are denominated in foreign currency are translated at the rates of exchange ruling at the transaction dates. Gains and losses on exchange are dealt with in the profit or loss in the year in which they arise.

For the purpose of presenting consolidated financial statements, assets and liabilities of the Group's foreign operations are expressed in Kenya Shillings using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate) under the currency translation reserve.

4.10 Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group has become a party to the contractual provisions of the instrument.

4.10.1 Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in number of delayed payments in the portfolio, past average credit period as well as observable changes in national or economic conditions that correlate with default on receivables.

4.10.2 Cash and cash equivalents

Cash and cash equivalents include; cash in hand, fixed deposits and deposits held at call with banks which are highly liquid investments with original maturities of three months or less. Cash and cash equivalents are measured at realizable value.

4.11 Impairment

At each year end, the Group reviews the carrying amounts of its financial assets, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amounts of the asset are estimated and an impairment loss is recognised in the profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.12 Retirement benefits

The Group has a defined contribution scheme in Kenya for its eligible employees. The assets of the scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employee and the company.

The Group also contributes to the statutory defined contribution pension schemes in Kenya, Tanzania and Uganda. In Nigeria, Ghana and Rwanda the Group contributes to regional pension funds administered by equivalent government regulatory bodies. Employer's contribution is determined by local statutes.

The Group's obligation to retirement benefit schemes is recognised in the profit or loss as they fall due.

4.13 Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

4.14 Provisions for employee entitlement

Employees' entitlement to annual leave is recognised when they accrue to employees. The necessary provision is made in the profit or loss based on the terms of the group's leave policy.

5. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

5.1 New standards and amendments to published standards effective for the year ended 31 December 2013

In the current year, the Group has applied a number of new and revised IFRS issued by the International Accounting Standard Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

5.1.1 Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

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

The application of the amendment had no effect on the company's financial statements as the company did not have any offsetting arrangements in place.

5.1.2 New and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards in consolidating joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Arrangements. Subsequent to the issue of these standards amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.

In the current year the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) deals only with separate financial statements. The impact of the application of these standards is set out below.

5.1.2.1 IFRS 10 Consolidated Financial Statements

IFRS 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities.

The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee and sets out the principles for the preparation of consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under IFRS 10, control is based on whether an investor has:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the returns.

The directors of the Company made an assessment as at the date of initial application of IFRS 10 (i.e. 1 January 2013) as to whether or not the Group has control over its subsidiaries and associates in accordance with the new definition of control and the related guidance set out in IFRS 10. The directors concluded that it has had control over all of its subsidiaries but not over any associates or companies in which it held minority interest. Therefore, application of IFRS 10 did not result in any change in accounting for interests in subsidiaries and associates compared to the previous year.

5.1.2.2 IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures. The standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets and obligations for the liabilities, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly).
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 Investments in Associates and Joint Ventures (2011). Unlike IAS 31, the use of 'proportionate consolidation' to account for joint ventures is not permitted.

The directors of the Company reviewed and assessed the classification of the Group's investment in joint arrangements in accordance with the requirements of IFRS 11. The directors concluded that the Group's investment in Millward Brown East Africa Limited and Millward Brown Mauritius Limited, which were classified as jointly controlled entity under IAS 31 and accounted for using the proportionate consolidation method, should be classified as a joint venture under IFRS 11 and accounted using the equity method.

The change in accounting of the Group's investment in Millward Brown East Africa Limited and Millward Brown Mauritius Limited has been applied in accordance with the relevant transition provision set out in IFRS 11. Comparative amounts for 2012 have been restated to reflect the change in accounting for the Group's investment in these two companies. The initial investment as at 1 January 2012 for the purposes of applying the equity method is measured as the aggregate of the carrying amounts of the assets and liabilities that the Group had previously proportionately consolidated (see the table below for details). Also, the directors of the Company performed an impairment assessment on the initial investment as at 1 January 2012 and concluded that no impairment loss is required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Impact on profit for the year of the application of IFRS 11

All figures in Sh.'000	2012
Decrease in billing	(584,692)
Decrease in direct cost	(275,620)
Decrease in revenue	(309,072)
Increase in interest and investment income	1,333
Decrease in other income	(355)
Increase in share of profit of a joint arrangement	50,873
Decrease in administrative and operating expenses	(232,596)
Increase in foreign exchange loss	954
Decrease in tax charges	(25,494)
Increase in Exchange difference on translating foreign operations	(84)
Increase (decrease) in profit for the year	-
Increase (decrease) in profit for the year attributable to:	
- Owners of the Company	-
- Non-controlling interests	-

Impact on cash flows for the year ended 31 December 2012 on the application of IFRS 11

All figures in Sh.'000	2012
Increase in net cash used in operating activities	(46,270)
Decrease in net cash used in investing activities	13,894
Increase in net cash used in financing activities	(15,839)
Net decrease in cash and cash equivalents	(48,215)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Impact on assets, liabilities and equity as at 1 January 2012 and 31 December 2012 of the application of revised standard IFRS 11

All figures in Sh.'000	As at 1 January 2012 (Previously reported)	IFRS 11 Adjust- ments	As at 1 January 2012 (As restated)	As at 31 December 2012 (Previously reported)	IFRS 11 Adjust- ments	As at 31 December 2012 (As restated)
Equipment	294,593	(15,763)	278,830	452,783	(25,216)	427,567
Intangible assets	25,060	-	25,060	14,228	-	14,228
Investment in joint arrangements	-	82,816	82,816	-	130,977	130,977
Other equity investments	5,664	(252)	5,411	5,528	-	5,528
Deferred tax asset	76,027	(1,221)	74,806	120,138	(2,087)	118,051
Receivable from related parties	6,687	-	6,687	3,038	-	3,038
Goodwill	315,671	-	315,671	315,671	-	315,671
Trade and other receivables	4,951,237	(169,240)	4,781,997	5,663,316	(301,369)	5,361,947
Work-in-progress	32,072	-	32,072	8,276	-	8,276
Tax recoverable	134,187	-	134,187	109,105	(8,339)	100,766
Short-term bank deposits	1,971,143	(43,499)	1,927,644	970,903	-	970,903
Cash and bank balances	677,597	-	677,597	983,975	(79,283)	904,692
Deferred tax liability	-	-	-	(4,789)	1,565	(3,224)
Loan payable to a related parties	(337,430)	38,917	(298,513)	(353,269)	49,957	(303,312)
Taxation payable	(164,497)	2,839	(161,658)	(62,113)	2,423	(59,690)
Trade and other payables	(3,623,330)	105,403	(3,517,927)	(3,313,136)	231,371	(3,081,765)
Dividends payable	(9,772)	-	(9,772)	(14,024)	-	(14,024)
Total effect on net assets	4,354,909	-	4,354,909	4,899,630	-	4,899,630
Non-controlling interests	(506,940)	-	(506,940)	(630,379)	-	(630,379)
Retained earnings	(1,807,599)	-	(1,807,599)	(2,236,625)	-	(2,236,625)
Total equity	2,040,370	-	2,040,370	2,032,626	-	2,032,626

5.1.2.3 IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions - such as how control, joint control and significant influence has been determined.
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities and changes in control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information).
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of and changes in, the risks associated with its interests in unconsolidated structured entities.

Refer to additional disclosures made in note 26 which is in compliance with the requirements of IFRS 12.

5.1.3 IFRS 13 Fair Value Measurement

The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements. Refer to note 9.

5.1.4 Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The company has applied the amendments to IAS 1 - Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' (and the 'income statement' is renamed as the 'statement of profit or loss'). The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

5.1.5 Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In the current year, the company has restated various accounts. However, this has not resulted in material effects on the information in the statement of financial position as at 1 January 2012. In accordance with the amendments to IAS 1, the company has presented a third statement of financial position as at 1 January 2012 without the related notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.1.6 IAS 19 Employee Benefits (as revised in 2011)

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

The application of the amendment had no effect on the company's financial statements as the company does not have defined benefit obligations and plan assets.

5.1.7 IAS 27 Separate Financial Statements (2011)

Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments / IAS 39 Financial Instruments: Recognition and Measurement.

The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

The application of the amendments had no effect on the consolidated financial statements of the Group.

5.1.8 Annual Improvements 2009-2011 Cycle

Makes amendments to the following standards:

- IFRS 1 — Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets.
- IAS 1 — Clarification of the requirements for comparative information.
- IAS 16 — Classification of servicing equipment.
- IAS 32 — Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes.
- IAS 34 — Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments.

The application of the amendment had no effect on the group's financial statements.

5.1.9 IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised and subsequent measurement.

The Interpretation requires stripping activity costs which provide improved access to ore are recognised as a non-current 'stripping activity asset' when certain criteria are met. The stripping activity asset is depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units of production method unless another method is more appropriate.

The application of the amendment had no effect on the group's financial statements.

5.2 Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods

5.2.1 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. The directors of the Company anticipate that the application of IFRS 9 in the future may not 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 until a detailed review has been completed.

5.2.2 Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the company's financial statements as the Company is not an investment entity.

5.2.3 Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the company do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the company's financial statements as the company does not have any financial assets and financial liabilities that qualify for offset.

5.2.4 Recoverable Amount Disclosures for Non-financial Assets (Amendments to IAS 36)

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

During the year the Company measured recoverable value of its non-financial assets by discounting the future expected cash flows from those assets at weighted average cost of capital.

5.2.5 Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

Amends IAS 39 Financial Instruments: Recognition and Measurement to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A novation indicates an event where the original parties to a derivative agree that one or more clearing counter parties replace their original counter party to become the new counter party to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counter party (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

During the year the Group has not dealt with derivative instruments nor has hedged any of its credit and currency risk exposure.

5.2.6 Annual Improvements 2010-2012 Cycle

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date
- IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The directors do not anticipate that the application of these improvements to IFRSs will have a significant impact on the group's financial statements.

5.2.7 Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only)
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The directors do not anticipate that the application of these improvements to IFRSs will have a significant impact on the group's financial statements.

5.2.8 IFRIC 21 Levies

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognised progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

The directors do not anticipate that the application of this interpretation will have a significant impact on the group's financial statements as the group accounts for government levies in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

5.3 Early adoption of standards

The company did not early-adopt any new or amended standards in 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, the directors have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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 circumstances.

The key areas of judgement in applying the Group's accounting policies are dealt with below:

6.1 Critical judgements in applying accounting policies

6.1.1 Equipment

Critical estimates are made by the directors, in determining depreciation rates for equipment.

6.1.2 Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and 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. Where 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.

6.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

6.2.1 Useful life of equipment

As described above, the Group reviews the estimated useful life of equipment at the end of each annual reporting period.

6.2.2 Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value.

7. BILLING

The Group's billings are derived from sales in the following markets:

All figures in Sh.'000	2013	2012 (Restated)
Kenya (including billing to Pan-African markets)	9,707,358	9,000,908
Uganda	1,076,931	1,057,652
Tanzania	2,025,503	1,312,590
South Africa	364,755	350,521
Ghana	830,612	685,930
Nigeria	76,288	7,294
Others	86,554	57,303
	14,168,001	12,472,198

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. SHARE OF PROFIT FROM JOINT ARRANGEMENTS

The Company, through its subsidiaries has equity interest ranging from 12.6% to 25% in companies listed in note 17 and had, until 30 November 2013, 49% equity interest in Millward Brown East Africa Limited and Millward Brown Mauritius Limited (together MWB Entities). The group recognised proportionate earnings of MWB Entities as Share of profit from Joint Arrangements. Proportionate earnings of other companies was not recognised because the group expects realisation of such earnings doubtful and uncertain.

9. GAIN ON REVALUATION OF EQUITY INTEREST

During the year, the Company acquired a controlling stake in its joint ventures, Millward Brown East Africa Limited and Millward Brown Mauritius Limited (together MWB Entities), whose principal activity is the provision of marketing research services. The control was acquired as a result of the purchase of an additional 51% equity. Prior to this acquisition the Company had 49% shareholding in the joint venture. This acquisition has been accounted for as a step acquisition under IFRS 3 Business Combinations.

On acquisition of an additional 51% equity in MWB Entities, the existing equity interest (49%) was revalued in compliance with IFRS 3 Business Combination. Fair value of the existing interest was determined based on consideration paid to acquire the additional shares, which in-turn was determined based on the volume weighted average price of Scangroup's equity shares traded on the Nairobi Securities Exchange.

The following table shows calculation of gain on revaluation and goodwill arising on consolidation of MWB Entities.

All figures in Sh.'000		2013
Value of consideration shares issued to acquire control	(a)	861,542
Fair value of existing equity interest	(b)	827,756
Less: Book value of existing equity interest held	(c)	222,282
Gain on revaluation	(b-c)	605,474
Value of total equity interest post acquisition	(d=a+b)	1,689,298
Less: Net asset value of acquired companies	(e)	480,153
Goodwill	(d-e)	1,209,145

10. PROFIT BEFORE TAX

The profit before taxation is arrived at after charging:

All figures in Sh.'000	2013	2012 (Restated)
Staff costs		
- Salaries and wages	2,354,136	2,139,609
- Social security	93,498	83,386
- Medical expenses	57,933	44,942
- Leave pay	1,799	611
- Other staff costs	939	16,599
	2,508,305	2,285,147
Operating lease rentals	194,226	155,986
Auditors' remuneration	19,884	17,995
Depreciation	104,483	90,375
Amortisation of intangible assets	9,223	8,373
Bad debts provision	2,345	3,394
Gain on disposal of equipment	(556)	(313)
Directors' remuneration		
Non-Executive directors' fee	2,000	2,000
Non-Executive directors' emoluments	840	1,040
Executive directors' emoluments	94,983	80,027

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. TAXATION

11.1 Tax expense

All figures in Sh.'000	2013	2012 (Restated)
Current taxation based on the adjusted profit		
For companies at 30%	138,790	340,603
Tax impact of companies charged at different rates	32,716	17,142
Prior year under provision	-	139
	171,506	357,884
Deferred tax		
- current year charge/ (credit)	43,069	(49,269)
- prior year (excess credit) / under provision	(43,517)	8,942
	(448)	(40,327)
	171,058	317,557

11.2 Reconciliation of expected tax based on accounting profit to tax expense

All figures in Sh.'000	2013	2012 (Restated)
Accounting profit before taxation	1,038,416	1,069,566
Tax at the applicable rate of 30%	311,525	320,870
Adjustment for tax on share of profit from joint arrangements	(27,392)	(17,847)
Adjustment for gain on revaluation of equity interest	(181,642)	-
Tax effect of expenses not deductible for tax purposes	33,549	9,361
Tax impact of companies charged at different rates	(8,499)	(2,324)
Tax effect of income not subject to tax	-	(1,584)
Prior year (over) / under provision-deferred tax	43,517	8,942
Prior year under provision-current tax	-	139
	171,058	317,577

11.3 Movement in net of tax recoverable and tax payable

All figures in Sh.'000	GROUP		COMPANY	
	2013	2012 (Restated)	2013	2012
At the beginning of the year	41,076	(27,471)	3,600	22,229
Tax paid	341,560	426,431	30,438	63,001
Charge for the year	(171,506)	(357,884)	(8,352)	(81,630)
At the end of the year	211,130	41,076	25,686	3,600
Breakdown of tax recoverable / (tax payable)				
Tax recoverable	291,209	100,766	25,686	3,600
Tax payable	(80,079)	(59,690)	-	-
	211,130	41,076	25,686	3,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. PROFIT FOR THE YEAR

The profit after tax of Sh. 686,818,000 (2012: Sh. 205,004,426) has been dealt with in the separate financial statements of Scangroup Limited.

13. EARNINGS PER SHARE

13.1 Basic earnings per share

Basic earnings per share is calculated based on the profit attributable to shareholders divided by the weighted average number of ordinary shares in issue in each period as follows:

	2013	2012 (Restated)
Profit attributable to share holders of the holding company (Sh.'000)	790,143	628,176
Weighted average number of shares (in thousands)	292,779	284,789
Basic earnings per share (Sh.)	2.70	2.21

13.2 Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2013 and 31 December 2012, no such instruments were outstanding. Hence, the Diluted earnings per share is the same as the Basic earnings per share as presented in Note 13.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. EQUIPMENT

14.1 Equipment - Group

All figures in Sh.'000	Computers and accessories	Motor vehicles	Furniture, fittings and equipment	Total
COST				
At 1 January 2012 (Reported earlier)	281,642	97,290	224,216	603,148
Adjustments	(7,327)	(6,651)	(14,667)	(28,645)
At 1 January 2012 (Restated)	274,315	90,639	209,549	574,503
Additions	94,646	21,632	127,713	243,991
Disposals	(3,666)	(15,455)	(8,032)	(27,153)
Exchange rate adjustment	1,102	948	234	2,284
At 31 December 2012	366,396	97,764	329,464	793,624
At 1 January 2013	366,396	97,764	329,464	793,624
Additions on acquisition	40,900	23,764	54,555	119,219
Additions	85,701	7,211	95,997	188,909
Disposals	(16,139)	(2,667)	(3,794)	(22,599)
Exchange rate adjustment	(2,918)	(3,563)	(11,089)	(17,570)
At 31 December 2013	473,942	122,508	465,133	1,061,583
DEPRECIATION				
At 1 January 2012 (Reported earlier)	157,324	49,341	101,890	308,555
Adjustments	(4,168)	(2,168)	(6,546)	(12,883)
At 1 January 2012 (Restated)	153,156	47,173	95,344	295,672
Charge for the year	53,631	11,002	25,257	89,890
Elimination on disposal	(2,933)	(11,396)	(5,690)	(20,019)
Exchange rate adjustment	383	75	56	514
At 31 December 2012	204,237	46,854	114,967	366,057
At 1 January 2013	204,237	46,854	114,967	366,057
Additions on acquisition	22,976	15,170	32,215	70,362
Charge for the year	53,805	13,078	37,441	104,324
Elimination on disposal	(14,353)	(1,790)	(672)	(16,816)
Exchange rate adjustment	(1,881)	(1,499)	(3,902)	(7,282)
At 31 December 2013	264,784	71,813	180,048	516,645
NET BOOK VALUE				
At 31 December 2013	209,158	50,695	285,085	544,938
At 31 December 2012 (Restated)	162,160	50,910	214,497	427,567

Note: Adjustments to the balances of Cost and Depreciation as at 1 January 2012 relates to restatement of balance in compliance with IFRS 11. Refer note 5.1.2.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14.2 Equipment – Company

All figures in Sh.'000	Computers and accessories	Motor vehicles	Furniture, fittings and equipment	Total
COST				
At 1 January 2012	127,529	34,392	10,892	172,813
Additions	48,238	-	1,212	49,450
Disposals	(103)	-	(750)	(854)
At 31 December 2012	175,663	34,392	11,354	221,409
At 1 January 2013	175,663	34,392	11,354	221,409
Additions	42,203	-	41,664	83,868
Disposals	(1,958)	(2,200)	(22)	(4,179)
At 31 December 2013	215,909	32,192	52,996	301,098
DEPRECIATION				
At 1 January 2012	56,247	16,297	4,714	77,258
Charge for the year	30,926	4,524	885	36,335
Elimination on disposal	(43)	-	(533)	(576)
At 31 December 2012	87,130	20,821	5,067	113,017
At 1 January 2013	87,130	20,821	5,067	113,017
Charge for the year	22,762	3,290	5,064	31,116
Elimination on disposal	(1,361)	(1,790)	(11)	(3,162)
At 31 December 2013	108,531	22,320	10,120	140,971
NET BOOK VALUE				
At 31 December 2013	107,378	9,872	42,876	160,126
At 31 December 2012	88,533	13,571	6,287	108,392

15. INTANGIBLE ASSETS

All figures in Sh.'000	2013	2012
COST		
At 1 January	27,338	27,338
Additions	-	-
At 31 December	27,338	27,338
AMORTISATION		
At 1 January	13,110	2,278
Charge for the year	8,373	8,373
Exchange rate adjustment	777	2,459
At 31 December	22,260	13,110
Net Book Value	5,078	14,228

The intangible assets represent client contracts acquired through the acquisition of Media Majique & Research Systems Limited (MMRS) and Ogilvy Ghana Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. INVESTMENT IN JOINT ARRANGEMENTS

All figures in Sh.'000	2013	2012 (Restated)
Millward Brown East Africa Limited	-	6,125
Millward Brown Mauritius Limited	-	4
Share of profit from joint arrangements	-	124,848
	-	130,977

Effective 1 December 2013 the Company acquired 51% equity in the above joint ventures resulting in them to become a 100% subsidiary.

17. OTHER EQUITY INVESTMENTS

As at 31 December 2013 O&M Africa B.V., a 100% subsidiary of Scangroup Limited owned equity shares in the following companies:

Name of company	Country	% Shares
Ogilvy & Mather Advertising Namibia (Proprietary) Limited	Namibia	30.0%
Ogilvy Zimbabwe (Private) Limited	Zimbabwe	25.0%
Ocean Ogilvy Gabon	Gabon	25.0%
Ocean Central Africa	Cameroon	25.0%
Ocean Burkina Faso	Burkina Faso	25.0%
Ocean Afrique Occidentale	Senegal	25.0%
Ocean Conseil	Cote d'Ivoire	25.0%
Prima Garnet Communications Limited	Nigeria	12.6%

The investments in associate companies are accounted based on the equity method in the consolidated financial statements. Although the Group holds more than 20% of the equity shares of all companies listed above except Prima Garnet Communication Limited, the Group does not recognise any of them as material. Accordingly additional disclosure as required by IFRS 12 are not made.

Share of profit from the associate companies are included in the consolidated profit or loss only to the extent the same are distributed and realised, which for the year 2013 and 2012 was Nil. This exception from the general accounting policy (refer to Note 4.2) is made because of the uncertainty in recovering such profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. DEFERRED TAX

Deferred income taxes are calculated on all temporary differences under the liability method using the currently enacted tax rates applicable for the various entities in the Group ranging from 15% to 30%. The net deferred tax asset is attributable to the following items:

All figures in Sh.'000	GROUP		COMPANY	
	2013	2012 (Restated)	2013	2012
(Excess depreciation) / accelerated capital allowances	(2,807)	463	783	6,187
Unrealised exchange losses/(gains)	13,038	810	(2,248)	(2,456)
Tax losses carried forward	33,223	56,571	11,185	-
Provisions	71,821	56,983	20,627	20,383
	115,275	114,827	30,347	24,114
Movement in deferred tax account is as follows:				
At beginning of period – asset	114,827	74,806	24,114	22,140
(Charge) / Credit for the year	(43,069)	49,269	6,233	-
Prior year (excess credit) / under provision	43,517	(8,942)	-	1,974
Effect of exchange rates	-	(306)	-	-
At end of period – asset	115,275	114,827	30,347	24,114
Breakdown of deferred tax asset and liability				
Deferred tax asset	126,223	118,051	30,347	24,114
Deferred tax liability	(10,948)	(3,224)	-	-
	115,275	114,827	30,347	24,114

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Transactions between the company and its subsidiaries which are related parties have been eliminated on consolidation.

All figures in Sh.'000	GROUP		COMPANY	
	2013	2012 (Restated)	2013	2012
Balances recoverable from related parties				
Due after one year				
Due from directors	-	2,477	-	-
Due from affiliates of Joint Ventures	-	561	-	-
	-	3,038	-	-
Due within one year				
Due from subsidiaries	-	-	924,204	594,234
Due from affiliates of Joint Ventures	-	-	-	-
	-	-	924,204	594,234
Loan payable to related parties				
Various subsidiaries of WPP Plc	312,326	284,009		
Global Smollan Holdings Limited	19,303	19,303	-	-
Shareholders of Hill + Knowlton - South Africa	3,601	-	-	-
	335,230	303,312	-	-
Loan recoverable from related parties				
Loan due from various subsidiaries and Joint Ventures	-	-	246,793	50,020
Other balances payable to related parties				
Subsidiaries	-	-	227,723	-
Affiliates of Joint Ventures	-	-	-	-
Transactions with related parties				
Sale of services-Joint Ventures	-	-	349,188	2,991
Purchase of services	-	-	-	-
Remuneration of directors and key management compensation	-	-	-	478,025
Directors' remuneration - Executive directors' emoluments (included in key management compensation above)	94,983	80,027	94,983	80,027

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. GOODWILL

Goodwill represents consideration paid in excess of fair value of net assets acquired. The following table shows the breakdown of the total value by entity to which goodwill relates.

All figures in Sh.'000	At cost	Accumulated Impairment	Carried Value
As at 31 December 2013			
Millward Brown East Africa Limited	1,209,145	-	1,209,145
O&M Africa B.V.	152,929	-	152,929
Redsky Limited	83,548	-	83,548
Ogilvy Kenya Limited	79,194	-	79,194
Hill+Knowlton Strategies (South Africa) Pty Limited	23,367	-	23,367
Total	1,548,183	-	1,548,183
As at 31 December 2012 (Restated)			
O&M Africa B.V.	152,929	-	152,929
Redsky Limited	83,548	-	83,548
Ogilvy Kenya Limited	79,194	-	79,194
Total	315,671	-	315,671

The directors have assessed the goodwill for impairment. Based on the present value of the expected cash inflows from all the entities listed above, the directors are of the opinion that goodwill is not impaired since the date of initial recognition.

21. TRADE AND OTHER RECEIVABLES

All figures in Sh.'000	GROUP		COMPANY	
	2013	2012 (Restated)	2013	2012
Trade receivables	6,570,397	4,427,313	1,258,650	1,121,310
Value Added Tax recoverable	410,130	499,624	85,531	88,666
Staff recoverable	92,736	109,887	40,315	31,589
Other receivables and pre-payments	544,741	325,123	111,949	66,453
	7,618,004	5,361,947	1,496,445	1,308,018

22. CASH AND CASH EQUIVALENTS

All figures in Sh.'000	2013	2012 (Restated)
Cash at hand	2,920	5,921
Bank balance	780,635	898,771
Short term deposits		
- Fixed deposits with banks	2,006,647	697,950
- Call deposits with banks	5,409	272,953
	2,795,611	1,875,595

The deposits mature within 3 months after the year end. The effective interest on the fixed deposits for the year ended 31 December 2013 was 9.5% (2012: 18%) while the effective interest rate on the call deposits was 4.3% (2012: 9%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. SHARE CAPITAL – GROUP AND COMPANY

Authorised and issued shares

All figures in Sh.'000	2013	2012
Authorised share capital:		
Ordinary shares 400,000,000 (2012: 302,154,855) of Sh. 1 each	400,000	302,155
Issued and fully paid up shares		
Ordinary shares 378,865,102 (2012: 284,789,128) of Sh. 1 each	378,865	284,789

Movement in share capital

	2013		2012	
	Nos'000	Sh.'000	Nos'000	Sh.'000
At the beginning of the year	284,789	284,789	284,789	284,789
Shares issued	94,076	94,076	-	-
At the end of the year	378,865	378,865	284,789	284,789

During the year 2013 new shares were issued to Cavendish Square Holding B.V. 21,355,898 new shares were issued for cash at a premium of Sh. 84.84 and 72,720,076 new shares were issued towards consideration for its equity interest in O&M Africa B.V., Ogilvy Africa Limited, Ogilvy Kenya Limited, Ogilvy Mauritius Holdings Limited, Ogilvy Tanzania Limited, Hill + Knowlton Strategies Africa Holdings Limited, Hill & Knowlton East Africa Limited, Millward Brown East Africa Limited and Millward Brown Mauritius Limited. Fair value of shares issued for consideration other than cash was determined as Sh. 66.04 based on volume weighted average of traded prices of the shares over 90 day period as on 12 August 2013. All new shares were listed on the NSE on the 23 December 2013.

24. TRADE AND OTHER PAYABLES

All figures in Sh.'000	GROUP		COMPANY	
	2013	2012 (Restated)	2013	2012
Trade payables	3,913,793	2,953,717	962,265	945,915
Other payables	281,429	70,212	4,855	5,672
Leave pay provision	39,888	25,404	3,842	3,841
Value Added Tax payable	22,489	32,431	-	-
	4,257,599	3,081,765	970,962	955,428

25. DIVIDENDS PAYABLE

All figures in Sh.'000	2013	2012 (Restated)
At 1 January	14,024	9,772
Dividends declared	170,873	199,352
Dividends paid	(170,873)	(195,100)
At 31 December	14,024	14,024

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. INVESTMENT IN SUBSIDIARIES AT COST

	2013		2012	
	%	Sh.'000	%	Sh.'000
Media Buying Africa Limited	100%	124,024	100%	124,024
Scanad Nigeria Holdings Limited	100%	153,041	100%	153,041
Scangroup Mauritius Holding Limited	100%	155,033	100%	155,033
Redsky Limited	100%	84,542	100%	84,542
Scanad Kenya Limited	100%	40,000	100%	40,000
Scanad East Africa Limited	100%	31,500	100%	31,500
Scanad Africa Limited	100%	15,000	100%	15,000
MIA Mauritius	100%	10,006	100%	10,006
Mediacompete East Africa Limited	100%	40	100%	40
Grey East Africa Limited	100%	40	100%	40
O&M Africa B.V.	100%	773,417	51%	185,167
Ogilvy Africa Limited	100%	1,495,182	51%	61,200
Ogilvy Tanzania Limited	100%	127,299	51%	25,500
Hill & Knowlton East Africa Limited	100%	245,321	51%	5,207
Ogilvy Mauritius Holdings Limited	100%	100,435	51%	434
Ogilvy Kenya Limited	100%	1,951,778	50%	238,353
Millward Brown East Africa Limited	100%	1,537,130	0%	-
Millward Brown Mauritius Limited	100%	33,879	0%	-
Hill + Knowlton Strategies Mauritius Holdings Limited	100%	31	0%	-
J.Walter Thompson Kenya Limited	90%	18,000	90%	18,000
Squad Digital Limited	51%	408	51%	408
Smollan E. A. Limited	50%	500	50%	500
		6,896,605		1,147,995

Note:

- On 19 December 2013, Cavendish Square Holdings B.V. transferred the equity shares it owned in O&M Africa B.V., Ogilvy Africa Limited, Ogilvy Kenya Limited, Ogilvy Mauritius Holdings Limited, Ogilvy Tanzania Limited, Hill + Knowlton Strategies Africa Holdings Limited, Hill & Knowlton East Africa Limited, Millward Brown East Africa Limited and Millward Brown Mauritius Limited to Scangroup resulting in these companies to become a 100% subsidiaries of Scangroup Limited. Prior to this transaction, Scangroup's investments in Millward Brown East Africa Limited and Millward Brown Mauritius Limited were accounted as Investment in Joint Venture.
- As part of the same transaction, Cavendish Square Holdings B.V. also waived the call option which gave it the right to purchase, at fair value calculated based on multiple of earnings, 2% of the issued share capital in O&M Africa B.V., Ogilvy Africa Limited, Ogilvy Mauritius Holdings Limited, Ogilvy Tanzania Limited and Hill & Knowlton East Africa Limited and 1% of the issued share capital of Ogilvy Kenya Limited.

Scangroup Limited is the ultimate holding company of the following companies which are subsidiaries of Scanad East Africa Limited, a wholly owned subsidiary of Scangroup Limited:

	Shareholding %
Scanad Uganda Limited	100%
Scanad Tanzania Limited	82%
Roundtrip Limited	100%
JWT Tanzania Limited (subsidiary of Scanad Tanzania Limited)	82%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Scangroup Mauritius Holdings Limited is the holding company of following subsidiaries incorporated outside East Africa.

	Shareholding %
STE Scanad DRC	100%
Scanad Burundi Limited SPRL	100%
Scanad Rwanda Limited	100%
JWT Uganda Limited	100%
Scangroup (Mauritius) Limited	100%

Scangroup (Mauritius) Limited, (a wholly owned subsidiary of Scangroup Mauritius Holdings Limited) is the holding company of following subsidiaries incorporated outside East Africa.

	Shareholding %
Scangroup (Malawi) Limited	100%
Scangroup (Zambia) Limited	100%
Scangroup Mozambique Limitada	100%
Scangroup West Africa Limited	100%

Hill & Knowlton East Africa Limited, (a wholly owned subsidiary of Scangroup Limited) effective 1 August 2013 acquired 51% of the equity shares in Hill + Knowlton Strategies South Africa Pty Limited (formerly Corporate Communications Consultants Pty Limited) for a cash consideration of ZAR 3,500,000.

27. BANK OVERDRAFT

The Company has, for and on behalf of all its subsidiaries, availed a general short term banking facility, incorporating overdrafts, letter of credit and/or guarantee of bank facility of Sh. 500 million and forward exchange contract facility of USD 11,999 from CFC Stanbic Bank Limited. The utilisation of these facilities are monitored at a group level. Securities offered for the facilities are as follows:

- (i) Joint and several debentures over all the present and future moveable and immovable assets of Scangroup Limited and all the subsidiaries in Kenya for an amount of Sh. 500 million.
- (ii) Cross corporate guarantees and indemnities by Scangroup Limited and its subsidiaries in Kenya for an amount of Sh. 500 million.
- (iii) Right of set-off.

28. DIVIDENDS

The directors propose a first and final dividend Sh. 0.40 per share totalling Sh. 151,546,041 based on 378,865,102 shares in issue (2012: Sh. 0.60 per share totalling Sh. 170,873,477 based on 284,789,128 shares).

The payment of dividends is subject to approval by shareholders at the next Annual General Meeting and has not been included as a liability in the financial statements. Dividend payment will be subject to withholding tax, where applicable.

29. CAPITAL COMMITMENTS

All figures in Sh.'000	2013	2012 (Restated)
Authorised but not contracted	55,000	50,000
Authorised and contracted	-	23,974
	55,000	73,974

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. OPERATING LEASE COMMITMENTS

The total future minimum lease payments due to third parties under non-cancellable operating leases for premises are as follows:

All figures in Sh.'000	2013	2012 (Restated)
Within 1 year	195,038	212,119
Within 2 to 3 years	430,011	445,450
	625,049	657,569

31. CONTINGENT LIABILITIES

All figures in Sh.'000	2013	2012 (Restated)
Pending claims	40,589	43,014
Guarantees	10,105	4,000
	50,694	47,014

These relate to claims against the Group by various parties. The likely outcome of these claims cannot be determined as at the date of signing these financial statements. The directors' estimate of the maximum liability arising from these pending claims is set out above. However, the directors' do not expect any significant liability to arise from these pending matters.

32. RISK MANAGEMENT POLICIES

The Group's financial risk management objectives and policies are detailed below:

32.1 Capital risk management

The Group manages its capital with an aim to:

- retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- allocate capital efficiently to support growth;
- safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- provide an adequate return to shareholders by pricing its services to commensurate with the level of risk.

An important aspect of the Group's overall capital management process is the setting of a target risk-adjusted rate of return which is aligned to performance objectives and ensures that the Group is focused on the creation of value for shareholders.

The Group has a number of sources of capital available to it and seeks to optimise its equity / debt structure in order to ensure that it can consistently maximize returns to shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at the year-end the Group's borrowing are not in excess of its cash and cash equivalents. The table below sets out the calculation of gearing ratio.

All figures in Sh.'000	2013	2012 (Restated)
Share capital	378,865	284,789
Share premium	8,296,150	1,754,388
Revenue (deficit) / reserves	(479,877)	2,236,626
Translation reserve	(6,803)	(6,551)
	8,188,335	4,269,252
Non controlling interests	63,450	630,379
Total Equity	8,251,785	4,899,630
Loan payable to related parties	335,230	303,312
Less: Cash and cash equivalents	2,795,611	1,875,595
Excess of Cash and cash equivalents over borrowings	(2,460,381)	(1,572,283)
Gearing ratio	N/A	N/A

32.2 Financial Risk Management Objectives

The Group's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates. The Group's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Group does not hedge any risks and has in place policies to ensure that credit is extended to customers with an established credit history.

32.3 Credit risk

The Group's credit risk is primarily attributable to its trade receivables, bank balance and short term deposits. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and assessment of the prevailing economic environment.

The management assesses the credit worthiness of all clients by reviewing available financial information. Payment history of the client is used to review the maximum credit limit. Exposure to clients is also managed through other mechanisms such as the right to offset where a client is also a vendor of the company.

Credit risk on trade receivables is less because the majority of the Group's clients are multinational companies with high credit ratings.

Credit risk on liquid funds with financial institutions is also low, because funds are held by banks with good credit-standing.

The amount that best represents the Group's maximum exposure to credit as at 31 December 2013 is made up as follows:

All figures in Sh.'000	Fully performing	Past due	Total
At 31 December 2013			
Bank balance	780,635	-	780,635
Trade receivables	5,302,022	1,268,375	6,570,397
Short term deposits	2,012,056	-	2,012,056
	8,094,713	1,268,375	9,363,088
At 31 December 2012 (Restated)			
Bank balance	898,771	-	898,771
Trade receivables	3,536,259	891,054	4,427,313
Short term deposits	970,903	-	970,903
	5,405,933	891,054	6,296,987

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The customers under the fully performing category settle their balance in the normal course of trade. Trade receivables that are past due are not doubtful. Out of the total past due amount of Sh. 1,268,375,000 (2012: Sh. 891,054,000) a sum of Sh. 845,960,000 (2012: Sh. 476,352,000) has been settled subsequent to the year-end. Non-payment within the stipulated period under the contract in some cases will result in agreed discounts not being refunded to the respective clients. The credit control department actively follows the debts that are past due. The group does not hold any collateral or other securities to cover client credit risk, except for occasional advance amounts received from some clients

Bank balances and short term deposits are fully performing. Those amounts are held in reputable banks, which have a high credit rating.

32.3.1 Liquidity risk management

Liquidity risk is the risk that cash may not be available to settle obligations when due, at a reasonable cost. The primary liquidity risk of the Group is its obligation to pay vendors as they fall due. Management has built an appropriate liquidity risk management framework for the Group's short, medium and long-term needs. The Group manages liquidity risk by monitoring forecast and actual cash flows and by maintaining credit facilities from banks. Refer note 27 for details of bank credit facilities that the Group has.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual un-discounted cash flows.

All figures in Sh.'000	Less than 1 month	Between 1 - 3 months	Over 3 months	Total
At 31 December 2013				
Shareholders loan	-	-	335,230	335,230
Trade payables	1,982,256	1,535,695	395,842	3,913,793
	1,982,256	1,535,695	731,072	4,249,023
At 31 December 2012 (Restated)				
Shareholders loan	-	-	303,312	303,312
Trade payables	382,899	2,314,330	256,488	2,953,717
	382,899	2,314,330	559,800	3,257,029

32.3.2 Interest rate risk

Interest rate risk arises primarily from bank borrowings and borrowings from related parties. The potential impact of a 1% increase or decrease in the interest rate on profitability of the company would have been an increase or decrease of Sh. 2,653,000 (2012: Sh. 2,486,000)

32.3.3 Foreign currency risk

The Group's operations are predominantly in Kenya where the currency has been fluctuating against the major convertible currencies. A portion of the Group's purchases and sales are denominated in foreign currencies, principally the US dollars. The Group does not hedge its foreign currency risk as the risk is not significant.

There has been no change in the Group's exposure to market risks or the manner in which it manages and measures the risk.

At 31 December 2013, if the average exchange rate for the year was 5% higher or lower, the profit before tax would have increased or decreased by approximately Sh. 7,380,000 (2012: Sh. 32,324,500).

32.3.4 Price risk

Price risk arises from fluctuations in the prices of equity investments. At 31 December 2013 and 31 December 2012, the group did not hold investments that would be subject to price risk; hence this risk is not applicable.

32.3.5 Concentration risk

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. SEGMENTAL REPORTING

The disclosure requirements of IFRS 8 Operating Segments are not applicable to the group. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the Chief Operating Decision Maker (CODM) in order to allocate resources to the segments and to assess performance. Thus, under IFRS 8, the major reporting segment is Advertising and Media Investment Management. This is the information which has been reported in these financial statements. Refer to note 7.

34. INCORPORATION

The Company is domiciled and incorporated in Kenya as a public limited liability company under the Companies Act (Cap. 486). Effective 1 December 2013, 50.1% shares of the Company are beneficially held by WPP plc, a company incorporated in Jersey. Financial statements of WPP plc are available at www.wpp.com.



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