PKF

ECU WORLDWIDE (KENYA) LIMITED
(FORMERLY ECU-LINE KENYA LIMITED)
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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COMPANY INFORMATION

BOARD OF DIRECTORS	: Luc Van Dooren (Belgian) : Benjamin K. Nzoka (Kenyan) : Saleem Mohamed Nazir (British) : MLS Bvba (Resigned on 28/09/2016) : Shantha Martin (Indian)(Appointed on 28/09/2016)
REGISTERED OFFICE	: Mombasa Block XXI/277 : Ralli House : Nyerere Avenue : P. O. Box 87227 - 80100 : Mombasa
PRINCIPAL PLACE OF BUSINESS	: Office 3A, 3rd Floor : Sheetal Plaza : Mohdhar Mohd Habib Road : P.O. Box 94066 - 80107 : Mombasa
INDEPENDENT AUDITOR	: PKF Kenya : Certified Public Accountants : P. O. Box 90553 - 80100 : Mombasa
COMPANY SECRETARIES	: Zainash Registrars : Certified Public Secretaries : P. O. Box 44-00606 : Nairobi
PRINCIPAL BANKER	: Stanbic Bank Limited : P. O. Box 90131 - 80100 : Mombasa
LEGAL ADVISORS	: Kiarie, Kariuki & Co. Advocates : Ambalal House : P. O. Box 838 - 80100 : Mombasa
SUBSIDIARY	: Ecu Shipping Logistics (K) Limited : Mombasa

REPORT OF THE DIRECTORS

The directors submit their report and the audited consolidated financial statements for the year ended 31 December 2016, which disclose the state of affairs of the company and the group.

CHANGE OF COMPANY NAME

The company changed its name from Ecu-Line Kenya Limited to Ecu Worldwide (Kenya) Limited on 7 April 2016.

PRINCIPAL ACTIVITIES

The principal activities of the company are those of provision of freight shipping and air services, clearing, forwarding and warehousing agents. The principal activity of the subsidiary company, Ecu Shipping Logistics (K) Limited, is lodging of import manifests.

RESULTS

	Group		Company	
	2016 Shs	2015 Shs	2016 Shs	2015 Shs
Profit before tax	31,573,834	27,305,909	31,214,004	27,099,566
Tax charge	(9,832,510)	(8,583,876)	(9,724,561)	(8,521,973)
Profit for the year	21,741,324	18,722,033	21,489,443	18,577,593
Attributable to:				
Owner of the company	21,741,072	18,721,889	21,489,443	18,577,593
Non-controlling interests	252	144	-	-
	21,741,324	18,722,033	21,489,443	18,577,593

DIVIDENDS

The directors propose a final dividend of shs 37,500 per share (2015: Nil) amounting to a total of Shs 30,000,000 (2015: Nil).

DIRECTORS

Luvac Van Doreen retires by rotation in accordance with the company's Articles of Association and being eligible, offers himself for re-election.

INDEPENDENT AUDITOR

The company's auditor, PKF Kenya, has indicated willingness to continue in office in accordance with the Kenyan Companies Act, 2015.

BY ORDER OF THE BOARD

DIRECTOR
MOMBASA
2017
10TH MARCH

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the group and the company; that disclose, with reasonable accuracy, the financial position of the group and company and that enable them to prepare financial statements of the group and the company that comply with the International Reporting Financial Standards and the requirements of the Kenyan Companies Act, 2015. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i) Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
ii) Selecting and applying appropriate accounting policies;
iii) Making accounting estimates and judgements that are reasonable in the circumstances;

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the group and of the company as at 31 December 2015 and of the group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

In preparing these consolidated financial statements the directors have assessed the company's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the company and its subsidiary will not remain a going concern for at least the next twelve months from the date of this statement

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

So far as each of the directors is aware, there is no relevant audit information which the auditor is unaware of, and each of the directors has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by the board of directors on 10TH MARCH 2017 signed on its behalf by:

DIRECTOR

DIRECTOR

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ECU WORLDWIDE (KENYA) LIMITED (FORMERLY ECU-LINE KENYA LIMITED)

Opinion

We have audited the financial statements of Ecu Worldwide (Kenya) Limited and its subsidiary (the group), set out on pages 6 to 33 which comprise the consolidated and company statements of financial position as at 31 December 2016, the consolidated and company statements of profit or loss, consolidated and company statements of changes in equity and the consolidated and company statements of cash flows the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the consolidated and company financial position as at 31 December 2016, and of the consolidated and company financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act, 2015.

Basis for Opinion

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

Other information

The directors are responsible for the other information. The other information comprises the directors' report and the consolidated and company schedules of expenditure but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibilty is to read the other information and, in doing so, consider whether other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially mistated. If, based on the work we have performed, we conclude that there is a material mistatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with with IFRSs, and the requirements of the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material mistatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the group's financial reporting process.

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

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

.....continued on page 5

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PKF

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ECU WORLDWIDE (KENYA) LIMITED (CONTINUED)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Report on Other Legal and Regulatory Requirements
As required by the Kenyan Companies Act, 2015 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 group, so far as appears from our examination of those books; and
iii) the group's statement of financial position and statement of profit or loss are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Piyush Ramesh Devchand Shah P/No. 1521.

PKF Kenya

Certified Public Accountants
Mombasa

15 March **2017**

040/2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	2016 Shs	2015 Shs
Revenue	2	429,733,277	424,866,596
Cost of sales		(281,360,246)	(298,289,401)
Gross profit		148,373,031	126,577,195
Other income	3	197,344	3,879,945
Administrative expenses		(104,302,701)	(90,620,197)
Other operating expenses		(12,693,840)	(12,531,034)
Profit before tax		31,573,834	27,305,909
Tax charge	6	(9,832,510)	(8,583,876)
Profit for the year		21,741,324	18,722,033
Attributable to:			
Owners of the company		21,741,072	18,721,889
Non-controlling interests		252	144
		21,741,324	18,722,033
Dividend for the year:			
- Interim		-	-
- Final (proposed)	8	30,000,000	-
		30,000,000	-

The notes on pages 14 to 33 form an integral part of these financial statements.

Report of the independent auditor - pages 4 - 5.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2016 Shs	2015 Shs
CAPITAL EMPLOYED			
Share capital	7	4,000,000	4,000,000
Retained earnings		23,262,977	31,521,905
Proposed dividends	8	30,000,000	-
Equity attributable to owners of the company		57,262,977	35,521,905
Non-controlling interests		1,981	1,729
Total equity		57,264,958	35,523,634
REPRESENTED BY			
Non-current assets			
Vehicles and equipment	9	8,476,253	10,183,867
Deferred tax	10	2,284,995	187,660
		10,761,248	10,371,527
Current assets			
Financial assets	12	1,241,645	-
Trade and other receivables	13	79,037,282	41,374,952
Cash and cash equivalents	14	15,083,312	29,344,183
Tax recoverable		257,909	214,748
		95,620,148	70,933,883
Current liabilities			
Trade and other payables	15	46,792,865	43,657,940
Current tax		2,323,573	2,123,836
		49,116,438	45,781,776
Net current assets		46,503,710	25,152,107
		57,264,958	35,523,634

The financial statements on pages 6 to 33 were approved and authorised for issue by the Board of Directors on 10TH MARCH 2017 and were signed on its behalf by:

DIRECTOR

DIRECTOR

The notes on pages 14 to 33 form an integral part of these financial statements.

Report of the independent auditor - pages 4 - 5.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital Shs	Retained earnings Shs	Proposed dividends Shs	Total equity attributable to the owners interests Shs	Non-controlling interests Shs	Total Shs
Year ended 31 December 2016							
As start of year		4,000,000	31,521,905	-	35,521,905	1,729	35,523,634
Profit for the year		-	21,741,072	-	21,741,072	252	21,741,324
Dividends: Final (proposed) for 2016	8	-	(30,000,000)	30,000,000	-	-	-
At end of year		4,000,000	23,262,977	30,000,000	57,262,977	1,981	57,264,958
Year ended 31 December 2015							
As start of year		4,000,000	12,800,016	20,000,000	36,800,016	1,585	36,801,601
Profit for the year		-	18,721,889	-	18,721,889	144	18,722,033
Dividends paid for 2014		-	-	(20,000,000)	(20,000,000)	-	(20,000,000)
At end of year		4,000,000	31,521,905	-	35,521,905	1,729	35,523,634

The notes on pages 14 to 33 form an integral part of these financial statements.

Report of the independent auditor - pages 4 - 5.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2016 Shs	2015 Shs
Operating activities			
Cash (used in)/from operations	16	(1,971,645)	29,370,443
Tax paid		(11,773,269)	(8,091,493)
Net cash (used in)/from operating activities		(13,744,914)	21,278,950
Investing activities			
Cash paid for purchase of vehicles and equipment	9	(649,648)	(4,124,600)
Proceeds from disposal of vehicles and equipment		-	769,482
Interest received	3	133,691	90,450
Net cash used in investing activities		(515,957)	(3,264,668)
Financing activities			
Dividends paid		-	(20,000,000)
Net cash used in financing activities		-	(20,000,000)
Decrease in cash and cash equivalents		(14,260,871)	(1,985,718)
Movement in cash and cash equivalents			
At start of year		29,344,183	31,329,901
Decrease in cash and cash equivalents		(14,260,871)	(1,985,718)
At end of year	14	15,083,312	29,344,183

The notes on pages 14 to 33 form an integral part of these financial statements.

Report of the independent auditor - pages 4 - 5.

NOTES

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell 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 liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into 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 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.

These financial statements comply with the requirements of the Kenyan Companies Act. The statement of profit or loss represents the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

Going concern

The financial performance of the group is set out in the directors' report and in the statement of profit or loss. The financial position of the group is set out in the statement of financial position. Disclosures in respect of risk and capital management are set out in notes 17 to 18.

Based on the financial performance and position of the group and its risk management policies, the directors are of the opinion that the group is well placed to continue in business for the forseable future and as a result the financial statements are prepared on a going concern basis.

These financial statements comply with the requirements of the Kenyan Companies Act, 2015. The statement of profit or loss represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

New and amended standards adopted by the group

A number of new and revised Standards and Interpretations have been adopted in the current year, where applicable. Their adoption has had no material impact on the amounts reported in these financial statements.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

b) **Key sources of estimation uncertainty**

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relavant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The directors have made the following assumptions that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- **Impairment of trade receivables -** the group reviews their portfolio of trade receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cashflows expected.

  Local receivables older than 90 days and other receivables older than 120 days are considered as doubtful debts, hence a 100% provision is made. Doubtful debts that are later confirmed to be uncollectible are written off as bad debts.

- **Useful lives of vehicles and equipment -** Management reviews the useful lives and residual values of the items of vehicles and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

- **Fair value measurement and valuation process -** In estimating the fair value of an asset or a liability, the group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the group makes use of financial models or engages third party qualified values to perform the valuation and provide inputs to the model.

c) **Significant judgements made by management in applying the company's accounting policies**

Directors have made the following judgements that are considered to have the most significant effect on the amounts recognised in the financial statements:

- **Revenue recognition** - In making their judgement, the directors considered the criteria for the recognition of revenue to be determined by vessel expected time of arrival and expected time of departure.

- **Held to maturity financial assets -** The directors have reviewed the group's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the group's positive intention and ability to hold those assets to maturity.

- **Control of subsidiaries** - The directors asses whether or not the group has control over any entity based on whether or not the group has the practical ability to direct the relevant activities of the entity unilaterally. In making their judgement, the directors considered the group's absolute size of holding in the entity and the relative size of dispersion of the shareholdings owned by the other shareholders.

d) **Revenue recognition**

Revenue represents the invoiced value of service rendered excluding Value Added Tax (VAT) and discounts where applicable, and is recognised upon the performance of service based on the date of vessel berthing and sailing.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

e) **Investment in subsidiaries/Consolidation (continued)**

- Changes in ownership interests in subsidiaries without change of control

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

- Disposal of subsidiaries

When the group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

f) **Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at the rates ruling at the transaction dates.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise except for:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

g) **Vehicles and equipment**

All vehicles and equipment are initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group/company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

i) **Financial instruments (continued)**

- Financial assets (continued)

Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method. Changes in the carrying amount are recognised in the profit or loss.

Local receivables older than 90 days and other receivables older than 120 days are considered as doubtful debts, hence a 100% provision is made except on agents where 50% provision is made. Doubtful debts that are later confirmed to be uncollectible are written off as bad debts.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in the statement of profit or loss under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairment losses are recognised in profit or loss. For available for sale assets cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Subsequent recoveries of amounts previously written off/impaired are credited to profit or loss in the year in which they occur.

Gains and losses on disposal of assets whose changes in fair value were initially recognised in profit or loss are determined by reference to their carrying amount and are taken into account in determining operating profit/(loss).

Management classifies financial assets as follows:

Government securities are classified as held-to-maturity as the company has the intention and ability to hold these to maturity. These are carried at amortised cost.

Cash in hand and balances with financial institutions and trade and other receivables are classified as loans and receivables and are carried at amortised cost.

Management classify the fair values of financial assets based on the qualitative characteristics of the fair valuation as at the financial year end. The three hierarchy levels used by management are:

- Level 1: Where fair values are based on non-adjusted quoted prices in active markets for identical financial assets.
- Level 2: Where fair values are based on adjusted quoted prices and observable prices of similar financial assets.
- Level 3: Where fair values are not based on observable market data.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

m) **Taxation (continued)**

Current tax
Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax
Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

n) **Accounting for leases**

The group as a lessee

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

o) **Employee entitlements**

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

p) **Retirement benefit obligations**

The group/company operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The group's/company's contributions to the defined contribution retirement benefit scheme are charged to profit or loss in the year to which they relate. The group/company has no further payment obligations once the contributions have been paid.

The group/company and its employees contribute to the National Social Security Fund, a statutory defined contribution scheme registered under the NSSF Act. The group's/ company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

6. Tax (continued)

The tax on the group's/company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:

	Group		Company	
	2016 Shs	2015 Shs	2016 Shs	2015 Shs
Profit before tax	31,573,834	27,305,910	31,214,004	27,099,566
Tax calculated at a tax rate of 30% (2015: 30%)	9,472,150	8,191,773	9,364,201	8,129,870
Tax effect of expenses not deductible for tax purposes				
- expenses not deductible for tax purposes	372,665	396,561	372,665	396,561
- income not subject to tax	(12,305)	(4,458)	(12,305)	(4,458)
Tax charge	9,832,510	8,583,876	9,724,561	8,521,973
Effective rate of tax	31.4%	31.4%	31.4%	31.4%

7. Share capital

Authorised:				
1,500 (2015: 1,500) ordinary shares of Shs 5,000 each	7,500,000	7,500,000	7,500,000	7,500,000
Issued and fully paid:				
800 (2015: 800) ordinary shares of Shs 5,000 each	4,000,000	4,000,000	4,000,000	4,000,000

8. Dividends

The directors propose a final dividend of Shs 37,500 per share for the year (2015: Nil) amounting to a total of Shs 30,000,000 (2015: Nil).

In accordance with the Kenyan Companies Act, these financial statements reflect this dividend payable which is accounted for in the shareholders' funds as an appropriation of retained profits in the year ended 31 December 2016.

Payment of dividend is subject to a withholding tax at the rate of 5% for residents and 10% for non-residents. Payment of dividends to shares held by resident limited entities in excess of 12.5% of the shareholding are exempt from withholding tax.

10. Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2015: 30%). The movement on the deferred tax account is as follows:

	Group		Company	
	2016 Shs	2015 Shs	2016 Shs	2015 Shs
At start of year	(187,660)	(90,468)	(132,392)	(288)
Credit to profit or loss (Note 6)	(2,097,335)	(97,192)	(2,166,332)	(132,104)
At end of year	(2,284,995)	(187,660)	(2,298,724)	(132,392)

Deferred tax (asset)/liability, deferred tax charge/(credit) to profit or loss are attributable to the following items:

The Group	At start of year Shs	Credit/(charge) to profit or loss Shs	At end of year Shs
Deferred tax liability			
Unrealised exchange differences	50,987	(38,591)	12,396
Accrued interest	2,245	11,485	13,730
	53,232	(27,106)	26,126
Deferred tax assets			
Vehicles and equipment	47,102	(26,468)	20,634
Tax losses	(57,513)	57,513	-
Other timing differences	(230,481)	(2,101,274)	(2,331,755)
	(240,892)	(2,070,229)	(2,311,121)
Net deferred tax asset	(187,660)	(2,097,335)	(2,284,995)
The Company			
Deferred tax liability			
Unrealised exchange differences	50,987	(38,591)	12,396
Deferred tax assets			
Vehicles and equipment	47,102	(26,468)	20,635
Other timing differences	(230,481)	(2,101,274)	(2,331,755)
	(183,379)	(2,127,741)	(2,311,120)
Net deferred tax asset	(132,392)	(2,166,332)	(2,298,724)

13. **Trade and other receivables (continued)**

Local receivables older than 90 days and other receivables older than 120 days are considered as doubtful debts, hence a 100% provision is made. Doubtful debts that are later confirmed to be uncollectible are written off as bad debts.

As of 31 December 2016, there were no other trade receivables that were past due and not impaired.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

14. **Cash and cash equivalents**

	Group		Company	
	2016 Shs	2015 Shs	2016 Shs	2015 Shs
Cash at bank and in hand	15,083,312	28,363,265	14,290,305	27,678,093
Treasury bill	-	980,918	-	-
	15,083,312	29,344,183	14,290,305	27,678,093

For the purpose of the statement of cash flows, the year end cash and cash equivalents comprise the above balances.

The group's and company's bank balances are held with major Kenyan financial institutions and, insofar as the directors are able to measure any credit risk to these assets, it is deemed to be limited.

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

	Group		Company	
	2016 Shs	2015 Shs	2016 Shs	2015 Shs
Kenya Shilling	12,810,146	12,132,890	12,017,139	10,466,800
US Dollar	2,192,237	17,119,172	2,192,237	17,119,172
Euro	80,929	92,121	80,929	92,121
	15,083,312	29,344,183	14,290,305	27,678,093

15. **Trade and other payables**

Trade payables	8,667,404	4,857,899	8,667,404	4,857,899
Accruals	10,756,785	7,956,999	10,407,277	7,738,412
Deferred income	-	2,931,938	-	2,931,938
Payable to related parties (Note 17 (v))	27,368,676	27,911,104	27,373,476	27,915,304
	46,792,865	43,657,940	46,448,157	43,443,553

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

17. **Related party transactions and balances (continued)**

	Group		Company	
	2016 Shs	2015 Shs	2016 Shs	2015 Shs
iii) **Sale of vehicle and equipment**				
Key management personnel	-	500,000	-	500,000
iv) **Key management personnel compensation**				
Directors' emoluments	15,221,612	16,610,139	15,221,612	16,610,139
v) **Outstanding balances arising from trading transactions**				
Receivable from other related parties (Note 13)	17,204,896	5,539,803	17,207,396	5,542,303
Payable to related parties (Note 15)	27,368,676	27,911,104	27,373,476	27,915,304
Receivables from related parties can be analysed as follows:				
Subsidiary	-	-	2,500	2,500
Other related parties	17,204,896	5,539,803	17,207,396	5,539,803
	17,204,896	5,539,803	17,209,896	5,542,303
Payable to related parties can be analysed as follows:				
Subsidiaries	-	-	4,800	4,200
Other related parties	27,368,676	27,911,104	27,368,676	27,911,104
	27,368,676	27,911,104	27,373,476	27,915,304

The receivables from/payables to related parties are interest free, unsecured and have no specific dates of repayment.

18. **Risk management objectives and policies**

Financial risk management

The group's/company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk), limited credit risk and limited liquidity risk.

The group's/company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

19. Capital management

Internally imposed capital requirements

The group's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing services commensurate with the level of risk;
- to comply with the capital requirements set out by the group's bankers;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong asset base to support the development of business.
- to maintain an optimal capital structure to reduce the cost of capital.

The group sets the amount of capital in proportion to risk. The group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders or adjust the amount of capital expenditure.

20. Contingent liabilities

a) In 2006, the Kenya Revenue Authority (KRA) carried out a Value Added Tax (VAT) audit covering the period January 2002 to March 2006. An assessment in the amount of Shs 3,805,169 was raised. An objection has been raised with regard to this. The assessed amount has not been provided for as, in the opinion of the directors; the company has good grounds for the objection lodged.

In 2011, Kenya Revenue Authority (KRA) carried out an audit with respect to Value Added Tax (VAT), withholding tax and corporation tax for years of income from 2008 to 2011. During the year, KRA confirmed tax assessments for Shs 26,100,091, Shs 31,813,290 and 9,310,238 for unpaid taxes, interest and penalties in respect of VAT, withholding tax and corporation tax respectively. The company has lodged an apeal to the VAT tribunal and Local Committee in respect of this. The assessment amounts have not been provided for as, in the opinion of the directors; the company has good grouds of winning the appeals lodged.

b) Customs bonds

Group		Company	
2016 Shs	2015 Shs	2016 Shs	2015 Shs
30,000,000	30,000,000	30,000,000	30,000,000

21. Commitments

a) **Operating lease commitments - as a lessee**

The future minimum lease payments payable under non-cancellable operating leases are as follows:

	Group		Company	
	2016 Shs	2015 Shs	2016 Shs	2015 Shs
Not later than 1 year	4,483,472	4,213,110	4,483,472	4,213,110
Later than 1 year and not later than 5 years	12,289,657	14,126,815	12,289,657	14,126,815
Later than 5 years	-	2,646,314	-	2,646,314
	16,773,129	20,986,239	16,773,129	20,986,239

The group and company leases various properties under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years and these are generally renewable at the end of the tenure of the lease.