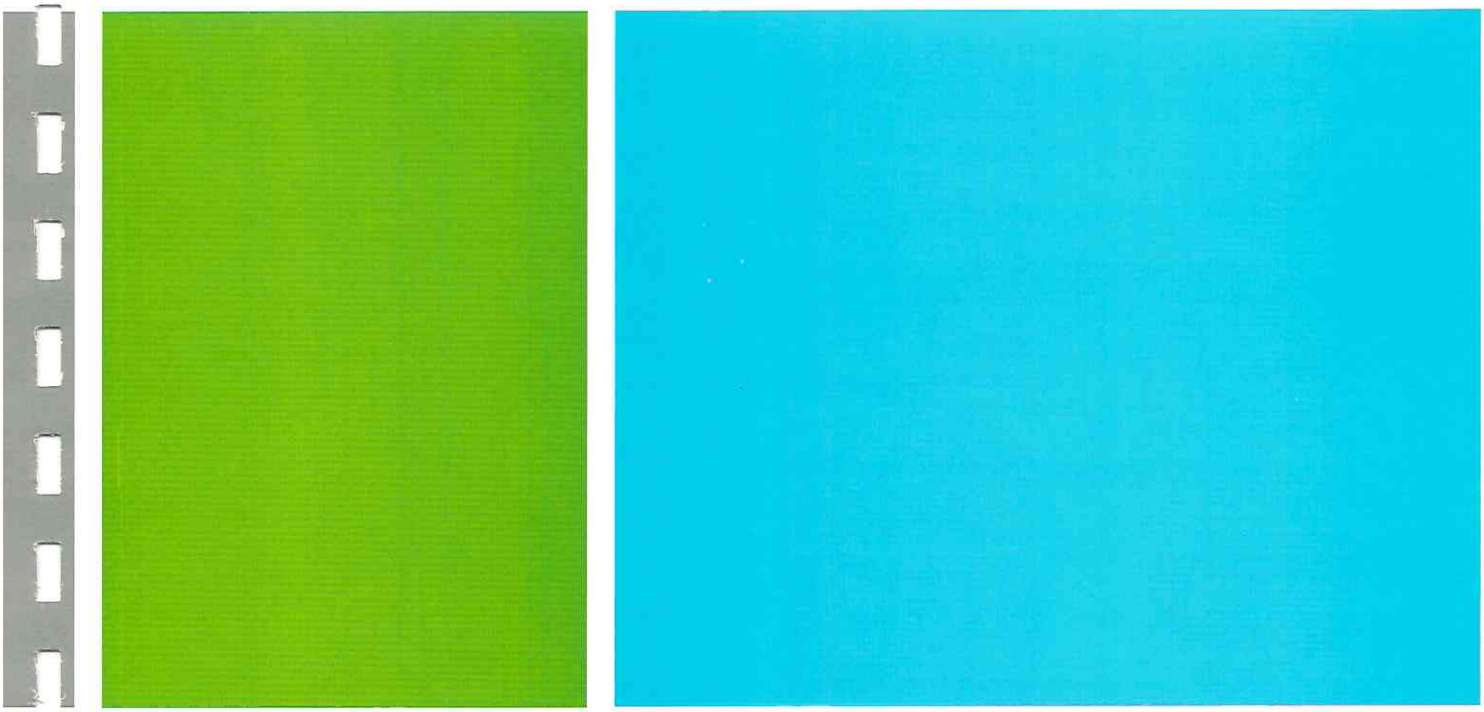


EVEREADY EAST AFRICA PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH SEPTEMBER 2018

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

CONTENTS

	PAGE
Company information	1 - 2
Report of the directors	3 - 4
Directors' remuneration report	5 - 6
Statement of directors' responsibilities	7
Report of the independent auditor	8 - 10
Financial statements:	
Statement of profit or loss and other comprehensive income	11
Balance sheet	12
Consolidated statement of changes in equity	13
Company statement of changes in equity	14
Statement of cash flows	15
Notes	16 - 37

Directors	Mrs L Waithaka - Chairperson Mr J K Mutua - Managing Director Mr A H Butt ICDC - Represented by Ms M Mbithi Ms F B Shah Joseph W Sitati - Appointed 27th September 2018 Dr C Ngahu - Resigned 12th September 2018
Company secretary	Image Registrars Limited 5th Floor, Barclays Plaza, Loita Street P.O. Box 9287 - 00100 Nairobi, Kenya.
Registered office	Sameer Industrial Park Mombasa/Enterprise Road Junction P.O. Box 44765 - 00100 Nairobi, Kenya.
Registrar	Image Registrars Limited 5th Floor, Barclays Plaza, Loita Street P.O. Box 9287 - 00100 Nairobi, Kenya.
Independent auditor	RSM Eastern Africa Certified Public Accountants 1st Floor, Pacis Centre Slip Road, off Waiyaki Way, Westlands P.O. Box 349 - 00606 Nairobi, Kenya.
Principal banker	Commercial Bank of Africa Limited Grenadier Tower, Woodvale Grove P.O. Box 30437 - 00100 Nairobi, Kenya.

Legal advisers

Kaplan & Stratton Advocates
P.O. Box 40111 - 00100
Nairobi,
Kenya.

Mukite Musangi & Company Advocates
P.O. Box 149 - 20100
Nakuru,
Kenya.

O & M Advocates
P.O. Box 49393 - 00100
Nairobi,
Kenya.

The directors submit their report together with the audited financial statements of the group for the year ended 30th September 2018.

Incorporation

The company is domiciled in Kenya where it is incorporated as a public company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 1.

Directorate

The directors who held office during the year and to the date of this report are set out on page 1.

Principal activities

The principal activities of the group are those of selling imported dry cell and car batteries and trading in an assortment of flashlights, range of bulbs, washing detergents, household bleach, surface cleaners and fabric care.

Recommended dividend

During the year, an interim dividend of KSh Nil (2017: KSh 210,000,000) was paid. The directors do not recommend the declaration of a final dividend for the year.

Business review

Our business

Eveready East Africa PLC (the "Company" or "Eveready") is a consumer goods company focused on providing branded portable power solutions packaged to consumers in Kenya. The company is headquartered in Nairobi, Kenya. The company which is one of the largest portable power solutions in Kenya was founded in 1967 and is listed in the Nairobi Securities Exchange.

The company operates in three segments automotive, lighting and household. The company sells its products in Kenya primarily through automotive dealers, wholesalers, electronic stores, retail stores, petrol stations and high-frequency stores.

Automotive Segment

The company offers maintenance free car batteries, vented car batteries, battery water and battery acid in its automotive segment under the brands TURBO® and TURBO*Plus* +®

Household Segment

The company offers dry cell batteries in sizes 'D' 'AA' 'AAA' '9V', 'C' and miniature in carbon zinc, alkaline batteries, lithium and rechargeable constructions. The products under this segment are traded under the brands TURBO® and TURBO*Plus* +®. This segment also includes the company's fabric care segment under the brand EVERCLEAN®.

Lighting Segment

The company offers flashlights, lanterns and bulbs under the brands TURBO® and TURBOPlus+®.

Performance

Gross turnover reduced by 26% during the financial year to KSh 252 million down from KSh 339 million achieved in 2016/2017.

Risks

Our business is subject to various risks and uncertainties. Highlighted below are some of the key risks to our business. These are risk that we consider to be material to Eveready's business at this moment in time. We recognize that there could be emerging risk in future.

i) **Supply chain**

Our business depends on the timely distribution of products to our consumers. Potential hazards to the supply chain include long lead times and disruption or loss of key suppliers. The underlying materials from which our products are subject to cost fluctuations which affects our margins as the component cost fluctuations cannot always be passed on to the consumers.

Business review (continued)

Risks (continued)

ii) **Quality products**

Product defects arising out of equipment failure or human error cannot be ignored.

iii) **Economic, political risks and natural disasters**

Consumer demand is weakened by adverse economic conditions. We are exposed to economic social and political volatility.

iv) **Systems and information**

Increasing our digital interaction with our consumers and the supply chain partners (trade) require secure and reliable IT systems and infrastructure. It is also crucial that we manage the information that we possess correctly and carefully. Unauthorized access failure of our IT systems and lack of effective use of information could disrupt our business, result in loss of assets and result in missed opportunities.

v) **Portfolio management**

Our growth is determined by our range of products (portfolio categories) that evolve over time. If we do not make optimal decision on these our margins and revenues will be affected.

vi) **Ethical**

The way we operate contributes to our society. Despite our commitment to ethical business and the steps that we take to adhere to this commitment there is always the risk that we fall short of our standards which may result to damage of our corporate brand and results.

vii) **Brand preference**

Consumers preferences are continuously changing. Our ability to respond to these changes and our ability to differentiate our products remains key. We have to continously innovate to meet the needs of our consumers and if we are unable to do this successfully it will impact our revenues and margins.

viii) **Legal and regulatory**

Eveready is subject to local and regional laws and regulations in various areas to include taxes, listing and disclosures obligations, competition, licensing, trademarks, employee health and safety, corporate governance and employment. Failure to abide by these laws and regulation exposes Eveready to civil and/ criminal actions which may lead to fines and sanctions with associated blight to our corporate reputation.

ix) **Business transformation**

Our transformation projects are ongoing and they drive our continuous improvement agenda. Excellence in execution as well as speed of execution remain key. Unsuccessful executions deny us the intended benefits of a project and may disrupt our business

Statement as to disclosure to the company's auditor

With respect to each director at the time this report was approved:

(a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and

(b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Terms of appointment of the auditor

The directors approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KSh 2,200,000 has been charged to profit or loss in the year.

By order of the board

.....

Director

Nairobi **2019**

Section 1- Not subject to audit

a) Decisions on directors' remuneration

There was no change/review in the directors' remuneration (salaries, fees and allowances) of all the Directors during the year.

b) Company policy on directors' remuneration

The company's policy is to remunerate directors and executives fairly and responsibly. The remuneration policy is aligned with the company's strategy and linked to annual performance. The board nomination and remuneration committee is responsbible for setting and administering the remuneration policy.

Directors are entitled to a basic quarterly fee and sitting allowance for each Board meeting and/or official company function attended. Directors are entitled to company transport when attending board meetings or company functions outside their regular areas of residence. A director who for any reason uses his/her own private vehicle is entitled to a mileage claim.

These are payable at the following rates:

Title	Director's Fees Quarterly (Ksh)	Allowance per Sitting (KSh)	Mileage Claim per KM (KSh)
Board Chairman	300,000	25,000	39.4
Committee Chairman	135,000	25,000	39.4
Director	135,000	20,000	39.4

c) General terms of service

Directors shall generally be elected at the annual meeting of shareholders for three-year terms, to serve until the annual general meeting of shareholders occurring at the end of that term. From time to time, directors may be nominated by the Board to serve less than three-year terms if the board believes there is valid purpose for such shortened terms, for example, in order to equalise the number of directors in each class elected.

If a director is elected between annual meetings of shareholders, the initial term of any such director shall expire at the next annual meeting of shareholders.

Section 2 - Information subject to audit

Directors remuneration paid during the year

Director's name	Fees and allowances as at 30th September 2018 KSh	Fees and allowances as at 30th September 2017 KSh
Mrs L Waithaka - Chairperson	1,470,000	1,586,000
Mr J K Mutua - Managing director	16,181,916	16,009,026
Mr A H Butt	910,000	1,082,500
Dr C Ngahu	815,000	1,111,000
Ms F B Shah	915,000	1,051,500
ICDC - Represented by Ms M Mbithi	750,000	965,000
Ms S Mudhune - Retired 31st December 2016	-	550,000
	21,041,916	**22,355,026**

By order of the board

.....
Director

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the group and of the company as at the end of the financial year and of their profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that: (a) show and explain the transactions of the company; (b) disclose, with reasonable accuracy, the financial position of the company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

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

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

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

Approved by the board of directors on 30th January 2019 and signed on its behalf by:

.....
Director

.....
Director

RSM Eastern Africa
Certified Public Accountants

1st Floor, Pacis Centre, Slip Road
off Waiyaki Way, Westlands
P.O. Box 349 - 00606, Nairobi, Kenya

T +254 (0) 20 3614000 / 4451747/8/9
M +254 (0) 706 347950 / 772 786111
F +254 (0) 20 4451773

www.rsm.global/kenya

Opinion

We have audited the accompanying financial statements of Eveready East Africa PLC ("the Company") and its subsidiary (together, "the Group"), set out on pages 11 to 37, which comprise, for both the Group and the Company, the balance sheet as at 30th September 2018, the profit and loss account and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, 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 Group and of the Company as at 30th September 2018 and of their 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.

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 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 financial statements in Kenya, and we have fulfilled our 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.

Key Audit Matters

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

Key audit matter	How the matter was addressed
Existence and valuation of inventory - Total inventories of KSh 88.8 million represent 27% of the total current assets of the company. These mainly consist of inventories at the company's stores.	Valuation of inventory is at the lower of cost and net realisable value. Cost is determined using the weighted average method. The determination of net realisable value for slow moving inventory is mainly based on management estimates. This in combination with the significant portion of inventories as part of the total assets, made us conclude that existence and valuation of inventory are a key audit matter for our audit of the company. The procedures performed included: · Attending inventory count and obtained evidence to support existence of stock held by third parties. · Investigating explanations for material differences between physical quantities and book records during the period and at period end. · Ensuring correct application of the group's costing methodology for inventories, weighted average. · Reviewing the group's methodology for identifying slow moving or obsolete items and ensured adequate provisions for write-downs were in place. · Ensuring that inventory is not stated in excess of its net realisable value and management's estimates on realisability are corroborated.

Partners: Ashif Kassam (Executive Chairman), Lina Ratansi* (Group Chief Executive), Simon Fisher**
*Tanzanian **British

RSM Eastern Africa is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

Key Audit Matters (continued)

Recoverability of trade receivables - The company had trade and other receivables amounting to KSh 165 million which included trade receivables of KSh 149.2 million.	The debtors' days has deteriorated from 213 days in 2017 to 362 days in 2018 as some of the company's customers have been experiencing financial distress. Therefore, valuation of accounts receivable has been identified as a key audit matter. Our procedures performed included the following: • Analysing the ageing of accounts receivable. • Circularising key accounts to confirm balances outstanding at period end. • Examining the historical recovery records and current credit status of customers. • Inspecting subsequent receipts from customers after the year end. • Ensuring that adequate provision for impairment is in place for balances whose recovery is doubtful.
Recognition of deferred tax asset on tax losses which is dependent on successful achievement of the company's business plan.	We obtained and reviewed the company's business plan for the period 2019 to 2022 which support the availability of taxable profits against which the temporary differences can be utilised. The deferred tax asset has not been recognised on deductible temporary differences and tax losses carried forward amounting to KSh 214,614,000 (2017: KSh 214,614,000) due to lack of certainty of availability of future taxable profits against which such deductible temporary differences and tax losses could be utilised.

Other information

The directors are responsible for the other information. Other information comprises the report of the directors and the directors' remuneration report included in the Annual Report, (but does not include the financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report; and the financial highlights, strategic review and corporate governance reports, which are expected to be made available to us after that date.

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

When we read the financial highlights, strategic review and corporate governance reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

Auditor's responsibilities for the audit of the financial statements (continued)

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

- identify and assess the risks of material misstatement of the 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 management.
- conclude on the appropriateness of management's 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 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 the 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 financial statements, including the disclosures, and whether the 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 Group's 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.

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

Report on other matters prescribed by the Kenyan Companies Act, 2015 (the Act)

In our opinion,

i) the information given in the report of the directors on pages 3 and 4 is consistent with the financial statements; and
ii) the auditable part of the directors' remuneration report has been properly prepared in accordance with the Act.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Elvis Ogeto, Practising Certificate No. 2303.

RSM Eastern Africa LLP

RSM Eastern Africa LLP
Certified Public Accountants
Nairobi
30 January **2019**
009/2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH SEPTEMBER 2018

	Note	Group		Company	
		2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
Continuing operations					
Sales	5	251,720	338,931	251,720	338,931
Cost of sales		(220,108)	(251,610)	(220,108)	(251,610)
Gross profit		31,612	87,321	31,612	87,321
Other income	6	15,220	49,546	16,739	54,112
Gain on disposal of assets		4,302	452,468	4,302	452,468
Selling and distribution expenses		(32,647)	(38,622)	(32,647)	(38,622)
Administrative expenses		(140,916)	(216,152)	(140,916)	(215,822)
Establishment expenses		(12,842)	(23,197)	(12,842)	(23,197)
Impairment of assets	7	(31,105)	(52,494)	(31,105)	(52,827)
Finance costs	8	(455)	(9,736)	(455)	(9,736)
(Loss)/profit before tax	9	(166,831)	249,134	(165,312)	253,697
Tax income	10	55,157	16,947	55,157	16,947
(Loss)/profit for the year from continuing operations		(111,674)	266,081	(110,155)	270,644
(Loss)/profit for the year from discontinued operations	11	(4,721)	1,092	-	-
(Loss)/profit for the year		(116,395)	267,173	(110,155)	270,644
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Actuarial losses		-	3,270	-	3,270
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Currency translation differences on foreign operations		4,692	2,349	-	-
Other comprehensive income for the year, net of tax		4,692	5,619	-	3,270
Total comprehensive (loss)/income for the year attributable to the owners of the company		(111,703)	272,792	(110,155)	273,914
Earnings per share		KSh	KSh	KSh	KSh
(Loss)/profit per share - basic and diluted	12	(0.55)	1.27	(0.52)	1.29

BALANCE SHEET AT 30TH SEPTEMBER 2018

	Note	Group 2018 KSh'000	Group 2017 KSh'000	Company 2018 KSh'000	Company 2017 KSh'000
Equity					
Share capital	13	210,000	210,000	210,000	210,000
Translation reserve		18,159	13,467	-	-
Retained earnings		209,508	325,903	227,667	337,822
Total equity		437,667	549,370	437,667	547,822
Non-current liabilities					
Provisions for liabilities	16	8,847	8,847	8,847	8,847
		8,847	8,847	8,847	8,847
		446,514	558,217	446,514	556,669
REPRESENTED BY					
Non-current assets					
Property, plant and equipment	17	7,591	9,312	7,591	9,312
Investment in subsidiaries	18	-	-	-	-
Deferred income tax	19	243,911	185,480	243,911	185,480
		251,502	194,792	251,502	194,792
Current assets					
Inventories	20	88,851	182,798	88,851	182,798
Trade and other receivables	21	155,161	149,235	155,161	149,235
Cash at bank and in hand	22	78,254	245,827	78,254	244,279
		322,266	577,860	322,266	576,312
Current liabilities					
Trade and other payables	23	108,956	149,600	108,956	149,600
Current tax		5,416	60,335	5,416	60,335
Borrowings	24	12,882	4,500	12,882	4,500
		127,254	214,435	127,254	214,435
Net current assets		195,012	363,425	195,012	361,877
		446,514	558,217	446,514	556,669

The financial statements on pages 11 to 37 were approved for issue by the board of directors on 29/1/ 2019 and were signed on its behalf by:

..... **Director**

..... **Director**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH SEPTEMBER 2018

Group	Share capital KSh'000	Translation reserve KSh'000	Actuarial reserve KSh'000	Revaluation reserve KSh'000	Retained earnings KSh'000	Total KSh'000
As at 1st October 2016	210,000	11,118	(3,270)	657,073	(388,343)	486,578
Changes in equity in 2017						
Profit for the year	-	-	-	-	267,173	267,173
Other comprehensive income	-	2,349	3,270	-	-	5,619
Total comprehensive income for the year	-	2,349	3,270	-	267,173	272,792
Transactions with owners:						
Dividends - interim	-	-	-	-	(210,000)	(210,000)
Transfer of revaluation surplus on disposal of assets	-	-	-	(657,073)	657,073	-
At 30th September 2017	210,000	13,467	-	-	325,903	549,370
At 1st October 2017	210,000	13,467	-	-	325,903	549,370
Changes in equity in 2018						
Loss for the year	-	-	-	-	(116,395)	(116,395)
Other comprehensive income	-	4,692	-	-	-	4,692
Total comprehensive income/(loss) for the year	-	4,692	-	-	(116,395)	(111,703)
At 30th September 2018	210,000	18,159	-	-	209,508	437,667

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH SEPTEMBER 2018

Company	Share capital KSh'000	Actuarial reserve KSh'000	Revaluation reserve KSh'000	Retained earnings KSh'000	Total KSh'000
As at 1st October 2016	210,000	(3,270)	657,073	(379,895)	483,908
Changes in equity in 2017					
Profit for the year	-	-	-	270,644	270,644
Other comprehensive income	-	3,270	-	-	3,270
Total comprehensive income for the year	-	3,270	-	270,644	273,914
Transactions with owners:					
Dividends:					
Interim - paid in year	-	-	-	(210,000)	(210,000)
Transfer of revaluation surplus on disposal of assets	-	-	(657,073)	657,073	-
At 30th September 2017	210,000	-	-	337,822	547,822
At 1st October 2017	210,000	-	-	337,822	547,822
Changes in equity in 2018					
Loss for the year	-	-	-	(110,155)	(110,155)
At 30th September 2018	210,000	-	-	227,667	437,667

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH SEPTEMBER 2018

	Note	Group 2018 KSh'000	Group 2017 KSh'000	Company 2018 KSh'000	Company 2017 KSh'000
Cash flows from operating activities					
(Loss)/profit before tax		(116,395)	267,173	(110,155)	270,644
Adjustments for:					
Income tax	10	(55,157)	(16,947)	(55,157)	(16,947)
Depreciation charge	17	5,593	11,781	5,593	11,781
Gain on disposal of assets		(4,302)	(452,468)	(4,302)	(452,468)
Interest expense	8	455	9,736	455	9,736
Impairment of investment in subsidiary	18	-	-	-	333
Movement in retirement benefit asset and liabilities		-	7,485	-	7,485
Assets (write back)/write off		(291)	2,768	(291)	982
Operating loss before working capital changes		(170,097)	(170,472)	(163,857)	(168,454)
Decrease/(increase) in inventories		93,947	(20,801)	93,947	(20,801)
Increase in trade and other receivables		(5,926)	(54,430)	(5,926)	(54,430)
(Decrease)/increase in trade and other payables		(35,887)	5,911	(40,644)	7,533
Cash used in operations		(117,963)	(239,792)	(116,480)	(236,152)
Interest paid		(455)	(9,736)	(455)	(9,736)
Tax paid		(58,193)	(4,104)	(58,193)	(4,104)
Net cash used in operating activities		(176,611)	(253,632)	(175,128)	(249,992)
Cash flows from investing activities					
Purchase of property, plant and equipment	17	(3,581)	(3,782)	(3,581)	(3,782)
Proceeds from disposal of property, plant and equipment		4,302	1,146,265	4,302	1,146,265
Net cash generated from investing activities		721	1,142,483	721	1,142,483
Cash flows from financing activities					
Repayment of borrowings		(1,306)	(433,969)	(1,306)	(434,299)
Dividend paid		-	(210,000)	-	(210,000)
Net cash used in financing activities		(1,306)	(643,969)	(1,306)	(644,299)
Net (decrease)/increase in cash and cash equivalents		(177,196)	244,882	(175,713)	248,192
Cash and cash equivalents at start of the year		245,827	(731)	244,279	(3,913)
Effect of exchange rate changes on cash and cash equivalents		(65)	1,676	-	-
Cash and cash equivalents at end of the year	22	68,566	245,827	68,566	244,279

NOTES

1. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these general purpose financial statements are set out below:

a) Basis of preparation

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings, which is also the functional currency of the company (see (c) below), rounded to the nearest thousand (KSh'000).

The directors have reached the decision to wind up Flamingo Properties Uganda Limited (the subsidiary) due to the unprofitability of its operations. The financial statements for the subsidiary have been prepared on a basis other than that of a going concern.

The financial statements comprise a statement of profit or loss and other comprehensive income, balance sheet (statement of financial position), statement of changes in equity, and statement of cash flows. Income and expenses, excluding the components of other comprehensive income, are recognised in profit or loss. Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to the profit and loss account in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the company in their capacity as owners are recognised in the statement of changes in equity.

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

Measurement basis

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, 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. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the company using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:
- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the company at the end of the reporting period during which the change occurred.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

b) New and revised standards

i) Adoption of new and revised standards

A number of amendments to standards and one interpretation became effective for the first time in the financial year beginning 1st October 2017 and have been adopted by the Group. None of them has had an effect on the Group's financial statements.

ii) New and revised standards and interpretations which have been issued but are not yet effective

The Group has not applied any new or revised standards and interpretations that have been published but are not yet effective for the year beginning 1st January 2017, and the Directors do not plan to apply any of them until they become effective. Note 28 lists all such new or revised standards and interpretations, with their effective dates, and provides reasonably estimable information relevant to assessing the possible impact that application of them will have on the Group's and the Company's financial statements in the period of initial

c) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which each entity operates).

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in profit or loss in the year in which they arise, except for differences arising on translation of non-monetary available-for-sale financial assets, which are recognised in other comprehensive income.

Translation of financial statements of foreign entities

The assets and liabilities of foreign operations are translated into Kenya Shillings using exchange rates at the reporting date. The components of shareholders' equity are stated at historical amounts.

Average exchange rates for the period are used to translate income and expense items of foreign operations. However, if exchange rates fluctuate significantly, the exchange rates at the dates of the transactions are used.

All resulting exchange differences are recognised in other comprehensive income and accumulated in currency translation reserve, a separate component of equity.

d) Revenue recognition

Revenue represents the fair value of consideration received or receivable for the sale of goods and services in the course of the group's activities. It is recognised when it is probable that future economic benefits will flow to the company and the amount of revenue can be measured reliably. It is stated net of Value Added Tax, rebates and trade discounts.

Sale of goods are recognised upon the delivery of the product and customer acceptance.

Rental income from operating leases is recognised on a straight line basis over the period of the lease.

Interest income is recognised on a time proportion basis using the effective interest method.

All other income earned by the group is recognised in the period in which it is earned.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

e) Income tax

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

Current tax

Current tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax

Deferred tax is determined for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the asset is recovered or the liability is settled.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities.

Deferred tax liabilities are recognised for all taxable temporary differences except those arising on the initial recognition of an asset or liability, other than through a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

f) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. The net borrowing cost capitalised is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit or loss in the year in which they are incurred.

g) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity.

h) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

i) Property, plant and equipment

All categories of property, plant and equipment are initially recognised at cost. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment. All other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying value only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. Repairs and maintenance is charged to the profit and loss account in the year to which it relates.

Depreciation is calculated using the straight line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate - %
Furniture and fixtures	16.7
Computers	33.3
Motor vehicles	33.3

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item, is depreciated separately.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

j) Investment in subsidiaries

Subsidiaries are entities controlled by the company. The company controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has an ability to affect these returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity.

Subsidiaries are fully consolidated from the date at which the company starts controlling them and are de-consolidated from the date control ceases. Inter-company transactions, balances and unrealised gains or transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the company.

The directors reached the decision to wind up Flamingo Properties Uganda Limited (the subsidiary) due to unprofitability of its operations. The results of the subsidiary have been presented as discontinued operations.

Investments in subsidiaries are carried at cost less any accumulated impairment losses.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

k) Impairment of non-financial assets

Non-financial assets that are carried at amortised cost are reviewed at the end of each reporting period for any indication that an asset may be impaired. If any such indication exists, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

l) Discontinued operations

These are either separate major lines of business or geographical operations that have been sold or classified as held for sale. When held for use, discontinued operations were a cash-generating unit or a group of cash-generating units. They comprise operations and cash flows that can be clearly distinguished - operationally and for financial reporting purposes - from the rest of the entity. Their results are shown separately in the consolidated statement of profit or loss and comparative figures are restated to reclassify them from continuing to discontinued operations.

m) Financial instruments

Classification

The group classifies its financial instruments into the following categories:

i) **Loans and receivables,** which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and excludes assets which the group intends to sell immediately or in the near term or those which the group upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.

ii) **Financial liabilities,** which comprise all financial liabilities except financial liabilities at fair value through profit or loss.

Financial instruments held during the year were classified as follows:

- Demand and term deposits with banking institutions and trade and other receivables were classified as 'loans and receivables'.
- Borrowings and trade and other liabilities were classified as financial liabilities.

Recognition and measurement

i) Financial assets

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Subsequently, loans and receivables are carried at amortised cost using the effective interest method. Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

m) Financial instruments (continued)

Recognition and measurement (continued)

i) Financial assets (continued)

The group assesses at each balance sheet whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognised. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

Changes in the carrying values and impairment losses of loans and receivables are recognised in the profit and loss account. Trade and other receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year

ii) Financial liabilities

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit and loss account.

Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

Presentation:

All financial assets are classified as non-current except financial assets at fair value through profit or loss, those with maturities of less than 12 months from the balance sheet date, those which the directors have the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

All financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the group's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the group does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Derecognition:

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

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and includes all costs incurred in bringing the goods to their present location and condition but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

o) Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

p) Provisions for liabilities

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

q) Leases

Finance leases as the lessee

Leases of property, plant and equipment including hire purchase contracts where the group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease payment is allocated between the liability and finance cost using the interest rate implicit in the lease. The finance cost is charged to the profit and loss account in the year in which it is incurred. Property, plant and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

Operating leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made/received under operating leases are charged/credited to the profit and loss account on a straight line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

r) Short term employee benefits

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an employment cost accrual.

s) Post-employment benefit obligations

Defined contribution

The group operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance company. A defined contribution plan is a plan under which the company pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The company's contributions are charged to the profit and loss account in the year to which they relate.

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

s) Post-employment benefit obligations (continued)

Defined (continued)

The company and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the company's contributions are charged to the profit and loss account in the year to which they relate.

2. Significant judgements and key sources of estimation uncertainty

In the process of applying the accounting policies adopted by the group, the directors make certain judgements and estimates that may affect the carrying values of assets and liabilities in the next financial period. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The directors evaluate these at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available.

a) Significant judgements made in applying the company's accounting policies

The judgements made by the directors in the process of applying the company's accounting policies that have the most significant effect on the amounts recognised in the financial statements include whether it is probable that future taxable profits will be available against which temporary differences can be utilized.

b) Key sources of estimation uncertainty

Key assumptions made about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

i) Income taxes

Estimates made in determining the income tax expense for transactions for which the ultimate determination of the income tax expense is uncertain in the ordinary course of business.

ii) Impairment losses

Estimates made in determining the impairment losses on receivables. Such estimates include the determination of the net realisable value or the recoverable amount of the asset. The movement on the impairment provision is set out in Note 21.

iii) Net realizable value of inventory

Estimates made in determining the net realizable value of inventory. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses and includes estimated selling price on products bundled as part of a sales promotion.

a) Financial risk management

The group's activities expose it to a variety of financial risks including credit, liquidity and market risks. The group's overall risk management policies are set out by the board and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the group's performance by setting acceptable levels of risk. The group does not hedge against any risks.

NOTES (CONTINUED)

3. Risk management objectives and policies

a) Financial risk management (continued)

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a company-wide basis. The group does not grade the credit quality of financial assets that are neither past due nor

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilisation of the credit limits and the credit period is monitored by management on a monthly basis.

The maximum exposure of the Group and the Company to credit risk as at the balance sheet date is as follows:

a. Group

	Fully performing KSh'000	Past due but not impaired KSh'000	Impaired KSh'000	Total KSh'000
At 30th September 2018				
Trade receivables	37,548	37,896	45,196	120,640
Other receivables	1,251	-	2,210	3,461
Value Added Tax recoverable	25,483	-	-	25,483
Cash at bank	78,254	-	-	78,254
Maximum exposure to credit risk	142,536	37,896	47,406	227,838
At 30th September 2017				
Trade receivables	18,068	66,006	12,646	96,720
Other receivables	5,397	-	-	5,397
Value Added Tax recoverable	35,993	-	-	35,993
Advance payment to suppliers	6,403	-	-	6,403
Cash at bank	245,827	-	-	245,827
Maximum exposure to credit risk	311,688	66,006	12,646	390,340

b. Company

	Fully performing KSh'000	Past due but not impaired KSh'000	Impaired KSh'000	Total KSh'000
At 30th September 2018				
Trade receivables	37,548	37,896	45,196	120,640
Other receivables	1,251	-	2,210	3,461
Value Added Tax recoverable	25,483	-	-	25,483
Cash at bank	78,254	-	-	78,254
Maximum exposure to credit risk	142,536	37,896	47,406	227,838
At 30th September 2017				
Trade receivables	18,068	66,006	12,646	96,720
Other receivables	5,397	-	-	5,397
Value Added Tax recoverable	35,993	-	-	35,993
Advance payment to suppliers	6,403	-	-	6,403
Cash at bank	244,279	-	-	244,279
Maximum exposure to credit risk	310,140	66,006	12,646	388,792

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

a) Financial risk management (continued)

ii) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the company's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The company manages liquidity risk by continuously reviewing forecasts and actual cash flows, and may consider banking facilities for future and likely shortfalls in the cashflows.

The table below summarises the maturity analysis for the financial liabilities to their remaining contractual maturities.

a. Group

	Less than one month KSh'000	Between 1-3 months KSh'000	Between 3-12 months KSh'000	Over 1 year KSh'000
At 30th September 2018				
Trade payables	19,279	26,363	-	-
Other payables and accrued expenses	17,996	8,010	-	-
Dividend payable	37,308	-	-	-
Borrowings	10,216	1,584	1,082	-
	84,799	35,957	1,082	-
At 30th September 2017				
Trade payables	71,118	-	-	-
Other payables and accrued expenses	7,912	13,564	-	-
Dividend payable	57,006	-	-	-
Borrowings	-	1,125	3,375	-
	136,036	14,689	3,375	-

b. Company

	Less than one month KSh'000	Between 1-3 months KSh'000	Between 3-12 months KSh'000	Over 1 year KSh'000
At 30th September 2018				
Trade payables	19,279	26,363	-	-
Other payables and accrued expenses	17,996	8,010	-	-
Dividend payable	37,308	-	-	-
Borrowings	10,216	1,584	1,082	-
	84,799	35,957	1,082	-
At 30th September 2017				
Trade payables	71,118	-	-	-
Other payables and accrued expenses	7,912	13,564	-	-
Dividend payable	57,006	-	-	-
Borrowings	-	1,125	3,375	-
	136,036	14,689	3,375	-

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

a) Financial risk management (continued)

iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

Interest rate risk

The company is exposed to cash flow interest rate risk on its variable rate borrowings because of changes in market interest rates. The company manages this exposure by maintaining an interest cover ratio, which is the extent to which the gross margin is available to service borrowing costs. Management consider that a change in interest rates of 1% in the year ending 30th September 2019 is reasonably possible. If the interest rates on the group's borrowings at the year-end were to increase/decrease by 1%, with all other factors remaining constant, the post-tax profit would be lower/higher by KSh 455,000 (2017: KSh 682,000) respectively.

Currency risk

Currency risk arises on financial instruments that are denominated in foreign currencies. The group has cash at bank, trade payables and borrowings which are denominated in foreign currencies.

	2018 US$ KSh' 000	2017 US$ KSh' 000
Cash at bank	(36)	46
Trade payables	(2,043)	(1,766)
Advance payments to suppliers	2,800	6,403
Net exposure	721	4,683

Management consider that an appreciation of the United States Dollar against the Kenya Shilling of between 5% and 10% in the year ending 30th September 2019 is reasonably possible. If the foreign currencies were to appreciate/depreciate against the Kenya Shilling by 10% with all other factors remaining constant, the post tax profit would be lower/higher by KSh 50,000 (2017: KSh 328,000).

b) Capital management

The group's objective in managing its capital is to ensure that it supports the development of its business and is able to continue as a going concern, while at the same time maximise the return to its shareholders. The group is not subject to any external capital requirements.

The board of directors reviews the capital structure on a quarterly basis. As part of this review, the board considers the cost of capital. Based on the review, the board considers, analyses and assesses the gearing ratio to determine the appropriate levels. This ratio is calculated as net debt divided by total shareholders' funds and net debt. Net debt is calculated as total borrowings less cash and cash equivalents. Except for insurance premium financing the company had no other external debt at the end of the year.

NOTES (CONTINUED)

3. Risk management objectives and policies (continued)

b) Capital management (continued)

The gearing ratio at the year-end was as follows:	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
Shareholders' funds	437,667	549,370	437,667	547,822
Total borrowings	12,882	4,500	12,882	4,500
Less: cash and cash equivalents	(78,254)	(245,827)	(78,254)	(244,279)
Net debt	(65,372)	(241,327)	(65,372)	(239,779)
Total shareholders' funds	437,667	308,043	437,667	308,043
Gearing	Nil	Nil	Nil	Nil

4. Segmental information

The continuing operations of the group comprise a single operating segment. Consequently, no segmental information is included in these financial statements.

	Group		Company	
	2018	2017	2018	2017
5. Sales	KSh'000	KSh'000	KSh'000	KSh'000
Sale of purchased goods	251,720	338,931	251,720	338,931
6. Other income				
Rental income	750	3,000	750	3,000
Interest income	10,164	33,686	10,164	33,686
Miscellaneous income	4,306	12,860	5,825	17,426
	15,220	49,546	16,739	54,112
7. Impairment of assets				
Impairment of retirement benefit asset	-	6,337	-	6,337
Impairment of receivables	31,105	46,157	31,105	46,157
Impairment of subsidiary	-	-	-	333
	31,105	52,494	31,105	52,827
8. Finance costs				
Interest expense:				
- Bank overdrafts	-	7,963	-	7,963
- Loans	455	1,773	455	1,773
	455	9,736	455	9,736

NOTES (CONTINUED)

9. (Loss)/profit before tax	Group 2018 KSh'000	Group 2017 KSh'000	Company 2018 KSh'000	Company 2017 KSh'000
(a) Items charged				
The following items have been charged in arriving at (loss)/profit before tax:				
Inventories expensed	220,108	251,610	220,108	251,610
Employee benefits expense (Note 9(b))	92,514	111,796	92,514	111,796
Operating lease rentals expense	13,592	16,446	13,592	16,446
Depreciation of property, plant and equipment	5,593	11,781	5,593	11,781
(b) Employee benefits expense				
The following items are included in employee benefits expense:				
Wages and salaries	88,127	106,945	88,127	106,945
Retirement benefit costs:				
- Defined contribution scheme	4,240	4,675	4,240	4,675
- National Social Security Fund (NSSF)	147	176	147	176
	92,514	111,796	92,514	111,796

The average number of persons employed during the year, by category, were:

	2018 Number	2017 Number
Sales and distribution	68	86
Management and administration	11	7
	79	93

10. Tax income	Group 2018 KSh'000	Group 2017 KSh'000	Company 2018 KSh'000	Company 2017 KSh'000
Current income tax	3,274	66,829	3,274	66,829
Under provision in prior year	-	3,617	-	3,617
Deferred tax credit (Note 19)	(58,431)	(87,393)	(58,431)	(87,393)
Tax income	(55,157)	(16,947)	(55,157)	(16,947)
The tax on the group's (loss)/profit before tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:				
(Loss)/profit before tax	(166,831)	249,134	(165,312)	253,697
Tax calculated at a tax rate of 30%	(50,049)	74,740	(49,594)	76,110
Tax effect of:				
Income subject to tax at 5%	-	(113,117)	-	(113,117)
Under - provision of deferred income tax in prior year	(15,730)	-	(15,730)	-
Under provision of current tax in prior year	-	3,617	-	3,617
Deferred tax asset not recognised	9,243	14,418	9,243	13,050
Expenses not deductible for tax purposes	1,379	3,395	924	3,393
Tax income	(55,157)	(16,947)	(55,157)	(16,947)

NOTES (CONTINUED)

11. Discontinued operations and assets held for sale - Group	2018 KSh'000	2017 KSh'000
(Loss)/profit for the year from discontinued subsidiary company operations		
Sales	-	-
Cost of sales	-	-
Gross profit	-	-
Other income	-	1,781
Other administration expenses	(4,721)	(689)
Loss before tax	(4,721)	1,092
Tax	-	-
(Loss)/profit for the year	(4,721)	1,092

12. Earnings per share

(Loss)/profit per share is calculated by dividing the (loss)/profit for the year attributable to shareholders by the number of ordinary shares in issue during the year.

	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
(Loss)/profit for the year (KSh' 000)	(116,395)	267,173	(110,155)	270,644
Number of ordinary shares (thousands) - Note 13	210,000	210,000	210,000	210,000
(Loss)/profit per share - basic and diluted (KSh)	(0.55)	1.27	(0.52)	1.29

There were no potentially dilutive shares outstanding at either 30th September 2018 or 30th September 2017.

13. Share capital	No. of shares	Issued and paid up capital KSh
Ordinary shares		
At 1st October 2016 and 30th September 2017	210,000,000	210,000,000
At 1st October 2017 and 30th September 2018	210,000,000	210,000,000

The total number of authorised ordinary shares is 210,000,000 (2017: 210,000,000) with a par value of KSh 1 each.

14. Dividends

During the year, an interim dividend of Nil (2017: KSh 1) per share amounting to KSh Nil (2017: KSh 210,000,000) was paid. The total amount of dividend paid per share for the year is KSh Nil (2017: KSh 210,000,000). Payment of dividends to shareholders (other than companies owning more than 12.5% of the issued shares) is subject to deduction of withholding tax at a rate of 5% for residents and 10% for non-residents.

15. Revaluation surplus

Group and company

The revaluation surplus arises on the revaluation of leasehold land and is stated net of deferred income tax. The surplus is not distributable. The movement during the year is as follows:

	2018 KSh'000	2017 KSh'000
At 1st October	-	657,083
Transfer of revaluation surplus on disposal of assets	-	(657,083)
At 30th September	-	-

NOTES (CONTINUED)

16. Provisions for liabilities	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
At the start of the year and end of year	8,847	8,847	8,847	8,847

The above provision is in respect of pending claims from former employees following the restructuring program undertaken in 2014.

17. Property, plant and equipment

Group and company	Furniture and fixtures KSh'000	Computers KSh'000	Motor vehicles KSh'000	Total KSh'000
At 1st October 2016				
Cost	42,853	30,491	47,178	120,522
Accumulated depreciation	(36,438)	(25,442)	(40,349)	(102,229)
Net carrying amount	6,415	5,049	6,829	18,293
Year ended 30th September 2017				
Opening carrying amount	6,415	5,049	6,829	18,293
Additions	-	363	3,419	3,782
Depreciation charge	(4,629)	(2,303)	(4,849)	(11,781)
Assets written off	(942)	(40)	-	(982)
Closing carrying amount	844	3,069	5,399	9,312
At 30th September 2017				
Cost	25,862	14,739	47,409	88,010
Accumulated depreciation and impairment	(25,018)	(11,670)	(42,010)	(78,698)
Net carrying amount	844	3,069	5,399	9,312
Year ended 30th September 2018				
Opening carrying amount	844	3,069	5,399	9,312
Additions	2,250	626	705	3,581
Assets written back	291	-	-	291
Depreciation charge	(792)	(1,882)	(2,919)	(5,593)
Closing carrying amount	2,593	1,813	3,185	7,591
At 30th September 2018				
Cost	18,674	14,277	40,503	73,454
Accumulated depreciation and impairment	(16,081)	(12,464)	(37,318)	(65,863)
Net carrying amount	2,593	1,813	3,185	7,591

Fully depreciated assets still used had a cost of KSh 60,077,000 (2017: KSh 76,904,000).

NOTES (CONTINUED)

18. Investments in subsidiaries

		2018 KSh'000	2017 KSh'000
Company			
Unquoted securities at cost	**Holding**		
Flamingo Properties Uganda Limited	100%	333	333
Impairment loss		(333)	(333)
		-	-

The company also has a subsidiary in Kenya, Flamingo Properties Limited, for which no capital contribution has been made. The subsidiary was dormant during the year.

19. Deferred income tax - group and company

Deferred income tax is calculated using the enacted tax rate of 30% except for capital gains, for which the enacted tax rate of 5% is used (2017: 30% and 5%).

Deferred tax assets/(liabilities), and the deferred tax charge/(credit) in the profit and loss account and in other comprehensive income are attributable to the following items:

Year ended 30th September 2018	**At start of year KSh'000**	**(Credited)/ charged to profit or loss KSh'000**	**At end of year KSh'000**
Deferred tax asset			
Tax losses	169,592	35,264	204,856
Provision for staff leave	1,244	30	1,274
Provision for bad debts	13,847	8,743	22,590
Provision for obsolete inventory	8,662	137	8,799
	193,345	44,174	237,519
Deferred tax liability			
Property, plant and equipment	(7,865)	14,257	6,392
Net deferred tax asset	185,480	58,431	243,911

Year ended 30th September 2017	**At start of year KSh'000**	**(Credited)/ charged to profit or loss KSh'000**	**At end of year KSh'000**
Deferred tax asset			
Tax losses	116,643	52,949	169,592
Provision for staff leave	24	1,220	1,244
Provision for bad debts	-	13,847	13,847
Provision for obsolete inventory	23,065	(14,403)	8,662
	139,732	53,613	193,345
Deferred tax liability			
Property, plant and equipment	(41,645)	33,780	(7,865)
Net deferred tax asset	98,087	87,393	185,480

NOTES (CONTINUED)

19. Deferred income tax - group and company (continued)

The deferred tax asset has not been recognised on deductible temporary differences and tax losses carried forward amounting to KSh 245,424,000 (2017: KSh 214,614,000) due to lack of certainty of availability of future taxable profits against which such deductible temporary differences and tax losses could be utilised. Under the Kenyan Income Tax Act, tax losses are allowable as a deduction only in the nine years succeeding the year in which they occurred. The tax losses of KSh 928,278,000 carried forward will expire as follows:

Arising in:	Tax losses KSh'000	Expiring:
2011	92,518	2020
2012	55,148	2021
2015	180,226	2024
2016	232,032	2025
2017	219,998	2026
2018	148,356	2027
	928,278	

The deferred tax asset has been recognised based on management's projections of future taxable profits that will be available against which the deductible temporary differences and tax losses can be utilised.

	Group		Company	
20. Inventories	**2018 KSh' 000**	**2017 KSh' 000**	**2018 KSh' 000**	**2017 KSh' 000**
Finished goods	119,885	211,673	119,885	211,673
Less: provision for impairment	(31,034)	(28,875)	(31,034)	(28,875)
	88,851	182,798	88,851	182,798
21. Trade and other receivables				
Trade receivables (Note 26(iii))	281,912	227,329	281,912	227,329
Less: Provision for impairment losses	(161,272)	(130,609)	(161,272)	(130,609)
	120,640	96,720	120,640	96,720
Other receivables	3,461	5,397	3,461	5,397
Receivable from related parties	-	-	53,102	54,621
Less: Provision for impairment losses	-	-	(53,102)	(54,621)
Value Added Tax recoverable	25,483	35,993	25,483	35,993
Prepayments	5,577	4,722	5,577	4,722
Advance payment to suppliers	-	6,403	-	6,403
	155,161	149,235	155,161	149,235
The movement on the provision for impairment losses for trade receivables and receivables from related parties is as follows:				
At 1st October	130,609	84,452	185,230	143,638
Net increase charged to profit and loss account	31,105	46,157	31,105	46,157
Provisions utilised	(442)	-	(1,961)	(4,565)
At 30th September	161,272	130,609	214,374	185,230

NOTES (CONTINUED)

22. Cash at bank and in hand	Group		Company	
	2018 KSh'000	2017 KSh'000	2018 KSh'000	2017 KSh'000
Cash at bank and in hand	3,180	21,697	3,180	20,149
Short-term bank deposits	75,074	224,130	75,074	224,130
	78,254	245,827	78,254	244,279
For the purposes of the statement of cash flows, cash and cash equivalents comprise the				
Cash and bank balance	3,180	21,697	3,180	20,149
Short-term bank deposits	75,074	224,130	75,074	224,130
Bank overdraft (Note 24)	(9,688)	-	(9,688)	-
	68,566	245,827	68,566	244,279

23. Trade and other payables

Trade payables (Note 26(iii))	45,642	71,118	45,642	71,118
Other payables	16,822	11,912	16,822	11,912
Accrued expenses	9,184	9,564	9,184	9,564
Dividend payables	37,308	57,006	37,308	57,006
	108,956	149,600	108,956	149,600

24. Borrowings

Current				
Bank overdraft (Note 22)	9,688	-	9,688	-
Insurance premium financing	3,194	4,500	3,194	4,500
	12,882	4,500	12,882	4,500
The borrowings are repayable as follows:				
On demand or within 1 year	12,882	4,500	12,882	4,500

25. Operating lease arrangements

Group and company	2018 KSh'000	2017 KSh'000
The company as lessee:		
Minimum lease payments under operating leases recognised through profit or loss	13,592	16,446
At the end of the reporting period, the company had outstanding commitments under operating leases, payable as follows:		
Within one year	9,826	2,666
In the second to fifth years inclusive	35,402	1,200
	45,228	3,866

Operating lease payments represent rentals payable by the company for certain of its office premises and storage facilities. The leases are cancellable with no penalty provided the company gives three months' notice to vacate the premises.

NOTES (CONTINUED)

26. Related party transactions

The company is related to other companies which are related through common shareholding or directorships.

The following transactions were carried out with related parties.

Group and company

	2018 KSh'000	2017 KSh'000
i) Purchase of goods and services		
- Other related parties	4,674	-
ii) Sale of goods and services		
- Other related parties	493	-

Sales and purchases to/from related parties were made at terms and conditions similar to those offered to/by major customers/suppliers.

iii) Outstanding balances arising from sale and purchase of goods/services	2018 KSh'000	2017 KSh'000
Payables to related parties (Note 23)	4,505	69,685
Receivables from related parties (Note 21)	785	-

iv) Key management compensation

The remuneration for key management during the year was as follows:

Salaries and other benefits	47,679	48,620

v) Directors' remuneration

Salaries	16,182	16,009
Fees for services as directors	4,860	6,346
	21,042	22,355

27. Contingencies

Bank guarantees	12,600	12,600

28. New and revised standards and interpretations which have been issued but are not yet effective

The company has not applied the following revised standards and interpretations that have been published but are not yet effective for the year beginning 1st October 2017.

IFRS 15 *Revenue from Contracts with Customers* (issued in May 2014)

The new standard, effective for annual periods beginning on or after 1st January 2018, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.

NOTES (CONTINUED)

28. New and revised standards and interpretations which have been issued but are not yet effective (continued)

IFRS 15 *Revenue from Contracts with Customers* (issued in May 2014) (continued)

Under IFRS 15, revenue from sale of goods will be recognised when the customer obtains control of the goods. Revenue from sales of services will be recognised over time provided the consumption of the service by the customer is simultaneous with the performance of the service by the company. Having carried out a preliminary assessment, the directors do not expect there to be a material retrospective adjustment to retained earnings on initial application of the standard in the year ending 30th September 2019.

IFRS 9 *Financial Instruments* (issued in July 2014)

This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1st January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition, summarised as follows:

- o IFRS 9 requires all financial assets to be measured at fair value on initial recognition and subsequently at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
- o For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
- o For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" (ECL) model based on the concept of providing for expected losses at the inception of a contract; this will require judgement in quantifying the impact of forecast economic factors. For financial assets for which there has not been a significant increase in credit risk since initial recognition, the loss allowance should represent ECLs that would result from probable default events within 12 months from the reporting date (12-month ECLs). For financial assets for which there has been a significant increase in credit risk, the loss allowance should represent lifetime ECLs. A simplified approach is allowed for trade receivables and lease receivables, whereby lifetime ECLs can be recognised from inception.

- o For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.
- o The derecognition provisions are carried over almost unchanged from IAS 39.

On 1st October 2018, financial assets currently classified as available-for-sale (at fair value through other comprehensive income) will be reclassified to 'fair value through profit or loss', with the consequent transfer of the balance on the fair value reserve to retained earnings. In addition, provision will have to be made for either 12-month or lifetime ECLs for all financial assets measured at amortised cost, lease receivables, and debt instruments measured at fair value through other comprehensive income. The directors expect to apply the simplified approach for trade receivables and lease receivables. Based on their preliminary assessment, additional provisions of KSh 24.6 million will have to be recognised at 1st October 2018 with a corresponding decrease, net of deferred tax, in retained earnings at that date.

Amendments to IFRS 10 and IAS 28 titled *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued in September 2014)

The amendments, applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

NOTES (CONTINUED)

28. New and revised standards and interpretations which have been issued but are not yet effective (continued)

IFRS 16 *Leases* (issued in January 2016)

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Application of IFRS 16 in 2019 will require right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the company is the lessee. The impact has not yet been quantified, but will result in an increase in non-current assets, an increase in non-current and current liabilities, and a reduction in retained earnings.

Amendments to IFRS 2 titled *Classification and Measurement of Share-based Payment Transactions* (issued in June 2016)

The amendments, applicable to annual periods beginning on or after 1st January 2018, clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments (SBP), the accounting for SBP transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a SBP that changes the classification of the transaction from cash-settled to equity-settled.

Amendments to IFRS 4 titled *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (issued in September 2016)

The amendments, applicable to annual periods beginning on or after 1st January 2018, include a temporary exemption from IFRS 9 for insurers that meet specified criteria and an option for insurers to apply the overlay approach to designated financial assets.

Amendment to IFRS 1 - *Annual Improvements to IFRSs 2014–2016 Cycle*, issued in December 2016

The amendment, applicable to annual periods beginning on or after 1st January 2018, deletes certain short-term exemptions and removes certain reliefs for first-time adopters.

Amendment to IAS 28 - *Annual Improvements to IFRSs 2014–2016 Cycle*, issued in December 2016

The amendment, applicable to annual periods beginning on or after 1st January 2018, clarifies that exemption from applying the equity method is available separately for each associate or joint venture at initial recognition.

Amendments to IAS 40 titled *Transfers of Investment Property* (issued in December 2016)

The amendments, applicable to annual periods beginning on or after 1st January 2018, clarify that transfers to or from investment property should be made when, and only when, there is evidence that a change in use of property has occurred.

IFRIC 22 titled *Foreign Currency Transactions and Advance Consideration* (issued in December 2016)

The Interpretation, applicable to annual periods beginning on or after 1st January 2018, clarifies that the exchange rate to use in transactions that involve advance consideration paid or received in foreign currency is the one at the date of initial recognition of the non-monetary asset or liability.

IFRS 17 *Insurance Contracts* (issued in May 2017)

The new standard, effective for annual periods beginning on or after 1st January 2021, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The company does not issue insurance contracts.

NOTES (CONTINUED)

28. New and revised standards and interpretations which have been issued but are not yet effective (continued)

IFRIC 23 *Uncertainty over Income Tax Treatments* (issued in June 2017)

The Interpretation, applicable to annual periods beginning on or after 1st January 2019, clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.

Amendments to IFRS 9 titled *Prepayment Features with Negative Compensation* (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled *Long-term Interests in Associates and Joint Ventures* (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - *Annual Improvements to IFRSs 2015–2017 Cycle*, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

Amendments to IAS 23 - *Annual Improvements to IFRSs 2015–2017 Cycle*, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled *Plan Amendment, Curtailment or Settlement* (issued in February 2018)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset) in the manner specified in the amended standard.