Gapco Kenya Limited
Reports and Financial Statements
For the year ended
31 December 2016

Independent Auditor's Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GAPCO KENYA LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Gapco Kenya Limited, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the 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 company as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Kenyan Companies Act.

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 company in accordance with the Institute of Certified Public Accountants of Kenya Code of ethics (ICPAK Code of Ethics), which is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants, together with other ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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, which comprises the report of directors as required by the Kenyan Companies Act. The other information 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 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, and for such internal controls as Directors determine are 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

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.

Independent Auditor's Report (contd.)

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 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company 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.

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, we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books of account; and

iii) the company's statement of financial position (balance sheet) and statement of profit or loss and other comprehensive income (profit and loss account) are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is ***CPA Fredrick Okwiri - (P/No 1699).***

Certified Public Accountants (Kenya)

Nairobi, Kenya

24 March, 2017

Statement of Profit or Loss and other Comprehensive Income for the year ended 31 December 2016

	Notes	2016 Kshs '000	2015 Kshs '000
REVENUE	4	73,240,980	162,308,414
COST OF SALES		(71,858,512)	(160,765,173)
GROSS PROFIT		1,382,468	1,543,241
OTHER OPERATING INCOME	5	414,227	471,623
ADMINISTRATIVE EXPENSES	6	(495,173)	(420,080)
NET FOREIGN EXCHANGE GAINS		16,955	66,397
OTHER OPERATING EXPENSES	7	(411,323)	(398,967)
OPERATING PROFIT BEFORE FINANCE COSTS		907,154	1,262,214
FINANCE COSTS	8	-	(33,093)
PROFIT BEFORE TAXATION		907,154	1,229,121
TAXATION CHARGE	9(a)	(296,913)	(385,449)
PROFIT FOR THE YEAR		610,241	843,672
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment	14	868,619	-
Deferred tax on revaluation surplus	16	(180,536)	-
		688,083	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,298,324	843,672

Statement of Financial Position As At 31 December 2016

	Notes	2016 Kshs '000	2015 Kshs '000
ASSETS			
Non current assets			
Property, plant and equipment	10	6,852,354	6,279,540
Current assets			
Inventories	11	5,457,504	10,830,274
Trade and other receivables	12	633,002	1,774,660
Corporate tax recoverable	9(c)	92,525	-
Cash and cash equivalents	19	455,451	231,1610
		6,638,482	12,836,095
Total assets		13,490,836	19,115,635
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	1,459,540	1,459,540
Share premium		502,551	502,551
Revaluation reserve	14	3,596,190	3,002,817
Retained earnings		1,379,306	3,593,434
Total shareholders' funds		6,937,587	8,558,342
Non current liabilities			
Service pay provision	15	10,424	12,177
Deferred tax liability	16	1,384,738	1,177,862
		1,395,162	1,190,039
Current liabilities			
Trade and other payables	17	2,290,091	9,287,100
Dividends payable	18	2,867,996	—
Corporate tax payable	9(c)	—	80,154
		5,158,087	9,367,254
Total equity and liabilities		13,490,836	19,115,635

The financial statements were approved and authorised for issue by the board of directors on 17 March, 2017 and were signed on its behalf by:

Director

Director

Statement of Changes in Equity for the year ended 31 December 2016

	Notes	Share capital Kshs '000	Share premium Kshs '000	Revaluation reserve Kshs '000	Retained earnings Kshs '000	Total Kshs '000
YEAR ENDED 31 DECEMBER 2015:						
At start of year		1,459,540	502,551	3,082,329	2,670,250	7,714,670
Transfer of excess depreciation on property, plant and equipment	14	-	-	(100,978)	100,978	-
Deferred tax on transfer of excess depreciation	16	-	-	21,466	(21,466)	-
Profit for the year		-	-	-	843,672	843,672
At end of year		1,459,540	502,551	3,002,817	3,593,434	8,558,342
YEAR ENDED 31 DECEMBER 2016:						
At start of year		1,459,540	502,551	3,002,817	3,593,434	8,558,342
Transfer of excess depreciation on property, plant and equipment	14	-	-	(100,978)	100,978	-
Deferred tax on transfer of excess depreciation	16	-	-	21,467	(21,467)	-
Revaluation surplus realised on disposal of property, plant and equipment		-	-	(15,199)	15,199	-
Interim dividends on ordinary shares		-	-	-	2,919,079	(2,919,079)
Total comprehensive income for the year		-	-	688,083	610,241	1,298,324
At end of the year		1,459,540	502,551	3,596,190	1,379,306	6,937,587

Statement of Cash Flows for the year ended 31 December, 2016

	Note	2016 Kshs'000	2015 Kshs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	22	595,565	1,214,867
Interest paid	8	-	(33,093)
Interest received	5	119,635	82,747
Corporate tax paid	9(c)	(443,252)	(493,685)
Net cash generated from operating activities		271,948	770,836
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(12,073)	(38,811)
Proceeds from disposal of property, plant and equipment		15,500	-
Net cash generated from/(used in) investing activities		3,427	(38,811)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings repaid		-	(1,288,819)
Interim dividends paid	18	(51,083)	-
Net cash used in financing activities		(51,083)	(1,288,819)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		224,290	(556,794)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		231,161	787,955
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	19	455,451	231,161

Notes to the Financial Statements for the year ended 31 December, 2016

1 ACCOUNTING POLICIES

Statement of compliance

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

For the Kenyan Companies Act reporting purposes, in these financial statements, the statement of financial position is equivalent to the balance sheet and the profit and loss account is included in the statement of profit or loss and other comprehensive income.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

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

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

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

IAS 1 Disclosure Initiative	The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance. In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Company, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met. As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes. The application of these amendments has not resulted in any impact on the financial performance or financial position of the Company.
IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances: a) when the intangible asset is expressed as a measure of revenue; or b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. As the Company already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Company's financial statements.
IAS 16 and IAS 41 Agriculture: Bearer Plants	The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

Notes to the Financial Statements for the year ended 31 December, 2016

The application of these amendments has had no impact on the Company's financial statements as the Company is not engaged in agricultural activities.

Annual Improvements to IFRSs 2012-2014 Cycle

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

- IFRS 5 - The amendments introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for- distribution accounting is discontinued.
- IFRS 7 - The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.
- IAS 19 - The amendments clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Company's financial statements.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

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

The application of these amendments has had no impact on the Company's financial statements as the Company did not have any such transactions in the current year.

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

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

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

Notes to the Financial Statements for the year ended 31 December, 2016

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

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 9 Financial Instruments	1 January 2018, with earlier application permitted
IFRS 15 Revenue from contracts with customers	1 January 2018, with earlier application permitted
IFRS 16 Leases	1 January 2019, with earlier application permitted
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018, with earlier application permitted
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture 4	Effective for annual periods beginning on or after a date to be determined
Amendments to IAS 7	1 January 2017, with earlier application permitted
Amendments to IAS 12	1 January 2017, with earlier application permitted

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

IFRS 9 Financial Instruments

In November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

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

Phase 1: Classification and measurement of financial assets and financial liabilities

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

Notes to the Financial Statements for the year ended 31 December, 2016

Phase 2: Impairment methodology

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

Phase 3: Hedge accounting

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

The directors of the Company anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the Company’s financial assets and financial liabilities.

IFRS 15 Revenue from Contracts with Customers

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

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors are still in the process of assessing the full impact of the application of IFRS 15 on the Company’s financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the directors complete the detailed review. The directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

Notes to the Financial Statements for the year ended 31 December, 2016

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The directors are still in the process of assessing the full impact of the application of IFRS 16 on the Company's financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the directors complete the detailed review.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
  - i) the original liability is derecognised;
  - ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
  - iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.
- The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

The directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Company's financial statements as the Company does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss

Notes to the Financial Statements for the year ended 31 December, 2016

of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Company's financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify the following:

- Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
- When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
- The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
- In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Company's financial statements.

iv) Early adoption of standards

The Company did not early-adopt any new or amended standards in 2016.

Basis of preparation

The company prepares its financial statements under the historical cost basis of accounting modified to include the revaluation of certain items of property, plant and equipment.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and/or performance of services, in the ordinary course of business and is stated net of Value Added Tax (VAT), rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for the company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved.

Notes to the Financial Statements for the year ended 31 December, 2016

The company bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

i) Sales of goods are recognised upon delivery of products and customer acceptance.

ii) Interest income is accrued by reference to time in relation to the principal outstanding and the effective interest rate applicable.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in equity, in which case, the tax is also recognised in equity.

Current tax

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

Translation of foreign currencies

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

Property, plant and equipment

All property, plant and equipment is 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.

Land and buildings, storage tanks and plant and machinery are subsequently shown at market value, based on periodic, but at least triennial valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

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 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 year in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Freehold land is not depreciated.

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

	Rate %
Prepaid operating lease rentals	2
Buildings	4
Storage tanks	4
Plant and machinery	10
Motor vehicles	20
Furniture, fittings and equipment	15
Computers, faxes and copiers	16.7

Notes to the Financial Statements for the year ended 31 December, 2016

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings in the statement of changes in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on direct purchase value and all costs attributable to bring the inventory to its current location and condition and is stated on a Weighted Average Basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expense.

Cash and cash equivalents

Cash and bank balances comprise cash at bank and cash in hand and short term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and at bank as defined above.

Financial instrument

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Management determines all classification of financial assets/liabilities at initial recognition.

Financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in profit or loss.

The company's financial assets fall into the following categories:

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 from the date of this report. All assets with maturities greater than 12 months after the date of this report 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 profit or loss.

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 profit or loss under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due as 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.

Financial liabilities

The company's financial liabilities which include borrowings and trade and other payables fall into the following category:

Other financial liabilities: These include borrowings, trade and other payables and current tax. These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs.

Notes to the Financial Statements for the year ended 31 December, 2016

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

All financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the date of this report.

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Accounting for leases

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.

Share capital

Ordinary shares are classified as equity.

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.

Employee entitlements

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

Retirement benefit obligations

Employee entitlements to service pay are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the date of this report.

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

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, the directors have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Critical accounting judgments in applying accounting policies

Property, plant and equipment

Critical estimates are made by the Company management, in determining depreciation rates for property, plant and equipment.

Notes to the Financial Statements for the year ended 31 December, 2016

Dismantling cost of property, plant and equipment

In accordance with IAS 16, cost of a property, plant and equipment shall include initial estimate of the costs of dismantling and removing the item and restoring the site. Management have considered the requirements and determined that dismantling and removing the item and restoring the site in the future is not probable and estimate of costs is not significant.

Impairment losses

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Leasehold land

Critical judgement is made by the directors in determining classification of leasehold land either as prepaid operating lease rentals or as finance leases if substantially all the risks and rewards incidental to ownership are transferred to the company. The directors consider that some of the titles to leasehold land held by the company constitute finance leases and that those properties should be classified as either property, plant and equipment in the case of owner occupied property, or investment properties in the case of non-owner-occupied properties.

Key sources of estimation uncertainty

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

Property, plant and equipment

Critical estimates are made by the directors in determining the useful lives of property, plant and equipment on an annual basis. Useful lives are affected by technology innovations, maintenance programmes and future productivity. Future market conditions determine the residual values. This is the basis on which the depreciation and amortization rates applied on property, plant and equipment and intangible assets respectively are determined.

Some of the company's assets are measured at fair value for financial reporting purposes. The board of directors of the company determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the company engages third party qualified valuers to perform the valuation. The directors work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Impairment

Determining whether assets are impaired requires an estimation of the value of the assets.

Contingent liabilities

As disclosed in note 23 to these financial statements, the company is exposed to various contingent liabilities in the normal course of business. The directors evaluate the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

Income taxes

Significant judgment is required in determining the Company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the period in which such determination is made.

Notes to the Financial Statements for the year ended 31 December, 2016

		2016	2015
		Kshs'000	Kshs'000
3	**PROFIT BEFORE TAXATION**		
	The profit before tax is arrived at after charging and (crediting):-		
	Auditors' remuneration	4,268	3,880
	Bad debt expenses/(recoveries) – net	5,201	(26)
	Depreciation on property, plant and equipment	288,678	287,629
	Directors emoluments	10,158	18,245
	Interest expense	-	33,093
	Loss on disposal of property, plant and equipment	3,700	-
	Interest income	(119,635)	(82,747)
4	**REVENUE**		
	Sale of petroleum products	73,240,980	162,308,414
5	**OTHER OPERATING INCOME**		
	Interest income	119,635	82,747
	Hospitality income	192,239	214,805
	Miscellaneous income	102,353	174,071
		414,227	471,623
6	**ADMINISTRATIVE EXPENSES**		
	Employment:-		
	Salaries and wages	239,365	161,738
	Other staff costs	19,652	18,453
	Staff medical and welfare	1,019	579
	Total employment costs	260,036	180,770
	Other administrative expenses:-		
	Legal and professional fees	97,056	72,199
	Miscellaneous expenses	75,593	90,027
	Travelling and entertainment	17,537	25,462
	Postage and telephone	11,551	11,354
	Directors' remuneration	10,158	18,245
	Bank charges	5,880	5,144
	Bad debt expenses/(recoveries)/ - net	5,201	(26)
	Audit fees	4,268	3,880
	Subscriptions	3,256	5,005
	Advertising and sales promotion	1,986	5,260
	Printing and stationery	1,601	2,610
	Donations and fines	1,050	150
	Total other administrative expenses	235,137	239,310
	Total administrative expenses	495,173	420,080

Notes to the Financial Statements for the year ended 31 December, 2016

		2016 Kshs'000	2015 Kshs'000
7	**OTHER OPERATING EXPENSES**		
	Depreciation on property, plant and equipment	288,678	287,629
	Insurance	25,572	42,915
	Rent and rates	66,439	31,452
	Repairs and maintenance	8,871	17,042
	Electricity and water	7,851	9,062
	Security expenses	8,801	7,111
	Loss on disposal of property, plant and equipment	3,700	-
	Licenses	1,411	3,756
	Total other operating expenses	411,323	398,967
8	**FINANCE COSTS**		
	Interest expenses	-	33,093
9	**TAXATION**		
	(a) Taxation charge		
	Current tax charge	270,572	445,746
	Over provision in prior periods	-	(2,365)
	Deferred tax charge/(credit) (note 16)	26,341	(57,932)
	Taxation charge	296,913	385,449
	(b) Reconciliation of tax charge to tax based on accounting profit		
	Accounting profit before tax	907,154	1,229,121
	Tax calculated at the rate of 30%	272,146	368,736
	Tax effect of: - Expenses not deductible for tax purposes	24,767	19,078
	- Over provision in prior periods	-	(2,365)
	Taxation charge	296,913	385,449
	(c) Corporate tax recoverable/(payable)		
	At the beginning of the year	(80,154)	(130,458)
	Charge for the year	(270,572)	(445,746)
	Over provision in prior years	-	2,365
	Paid during the year	443,252	493,685
	At the end of the year – recoverable/(payable)	92,525	(80,154)

Notes to the Financial Statements for the year ended 31 December, 2016

10 PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2016

	Freehold land and building Kshs'000	Leasehold land Kshs'000	Storage tanks Kshs'000	Plant and machinery Kshs'000	Furniture, fittings and Equipment Kshs'000	Computers, Faxes and Copiers Kshs'000	Capital work-in-progress Kshs'000	Total Kshs'000
Cost or valuation								
At start of year	261,080	878,050	5,437,323	211,550	48,444	16,621	22,419	6,875,487
Reclassification*	-	-	4,585	(4,585)	-	-	-	-
Additions	-	-	-	1,277	960	304	9,532	12,073
Transfer from capital work-in-progress	-	-	9,212	10,449	10,908	-	(30,569)	-
Disposals	(20,000)	-	-	-	-	-	-	(20,000)
Revaluation adjustment	68,920	249,350	(247,124)	(45,822)	-	-	-	25,324
At end of year	310,000	1,127,400	5,203,996	172,869	60,312	16,925	1,382	6,892,884
Comprising:								
Cost	-	-	-	-	60,312	16,925	1,382	78,619
Valuation - 2016	310,000	1,127,400	5,203,996	172,869	-	-	-	6,814,265
	310,000	1,127,400	5,203,996	172,869	60,312	16,925	1,382	6,892,884
Depreciation								
At start of year	10,366	70,244	433,442	49,724	20,260	11,911	-	595,947
Reclassification*	-	-	9,591	(9,591)	-	-	-	-
Charge for the year	5,784	35,122	222,112	20,599	3,899	1,162	-	288,678
Disposal	(800)	-	-	-	-	-	-	(800)
Revaluation adjustment	(15,350)	(105,366)	(665,145)	(57,434)	-	-	-	(843,295)
At end of year	-	-	-	3,298	24,159	13,073	-	40,530
Net book value	310,000	1,127,400	5,203,996	169,571	36,153	3,852	1,382	6,852,354

* Reclassification refers to assets that were previously erroneously classified and corrected in the year.

Notes to the Financial Statements for the year ended 31 December, 2016

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

Year ended 31 December 2015

	Freehold land and building Kshs'000	Leasehold land Kshs'000	Storage tanks Kshs'000	Plant and machinery Kshs'000	Furniture, fittings and Equipment Kshs'000	Computers, Faxes and Copiers Kshs'000	Capital work-in-progress Kshs'000	Total Kshs'000
Cost or valuation								
At start of year	261,080	878,050	5,437,323	204,771	35,292	15,949	4,211	6,836,676
Additions	-	-	-	6,779	1,957	672	29,403	38,811
Transfer from capital work-in-progress	-	-	-	-	11,195	-	(11,195)	-
At end of year	261,080	878,050	5,437,323	211,550	48,444	16,621	22,419	6,875,487
Comprising: Cost	12,069	57,979	49,420	13,929	48,444	16,621	22,419	220,881
Valuation - 2013	249,011	820,071	5,387,903	197,621	-	-	-	6,654,606
	261,080	878,050	5,437,323	211,550	48,444	16,621	22,419	6,875,487
Depreciation								
At start of year	3,783	35,122	214,790	26,316	15,414	12,893	-	308,318
Charge for the year	6,583	35,122	216,488	25,005	3,377	1,054	-	287,629
Transfer*	-	-	2,164	(1,597)	1,469	(2,036)	-	-
At end of year	10,366	70,244	433,442	49,724	20,260	11,911	-	595,947
Net book value	250,714	807,806	5,003,881	161,826	28,184	4,710	22,419	6,279,540

* This transfer refers to the reclassification of depreciation of some assets

Land, building, storage tanks and plant and machinery were last revalued on 31 December 2016 by Vineyard Valuers Limited. Valuation were made on the basis of open market value for the existing use and reflects the highest and best use of the assets. The book value of the properties were adjusted and the resultant surplus was credited to the revaluation reserve in the shareholder's equity.

Notes to the Financial Statements for the year ended 31 December, 2016

		2016 Kshs'000	2015 Kshs' 000
11	**INVENTORIES**		
	Good in transit	4,444,402	10,059,768
	Petroleum products	1,002,805	765,063
	Store spares and lubricants	10,297	5,443
		5,457,504	10,830,274
12	**TRADE AND OTHER RECEIVABLES**		
	Trade receivables	456,788	1,246,393
	Less: provision for impairment	(537)	(1,042)
	Net trade receivables	456,251	1,245,351
	Prepayment, deferred charges and other receivables	18,026	428,607
	Receivable from related parties (note 20 (v))	158,725	100,702
		633,002	1,774,660

In the opinion of the directors, the carrying amounts of the current portion of trade and other receivables approximate to their face values.

Movement in impairment provisions	**2016** Kshs'000	2015 Kshs' 000
At start of year	1,042	1,068
Additions	5,201	-
Recoveries	-	(26)
Written off	(5,707)	-
At end of year	537	1,042

The carrying amounts of the trade and other receivables are denominated in the following currencies:

	2016 Kshs'000	2015 Kshs' 000
Currencies:		
Kshs	38,019	44,997
USD	594,983	1,729,663
	633,002	1,774,660

Trade receivables that are aged between 3 to 6 months are considered past due. As of 31 December 2016, trade receivables amounting to Kshs 4,428,000 (2015: Kshs Nil) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

Individually impaired receivables mainly relate to customers, where the chances of recovery are remote as per management's assessment. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

Notes to the Financial Statements for the year ended 31 December, 2016

		2016 **Kshs'000**	2015 Kshs' 000
13	**SHARE CAPITAL**		
	Authorized:m		
	72,977,000 (2015: 72,977,000) ordinary shares of Kshs. 20 each	1,459,540	1,459,540
	Issued and fully paid:		
	72,977,000 (2015: 72,977,000) ordinary shares of Kshs. 20 each	1,459,540	1,459,540

Share premium of Kshs 502,551,000 arose from issue of 7,977,000 shares to Gulf Africa Petroleum Corporation at a premium of Kshs 63 each in December 2008.

		2016 **Kshs'000**	2015 Kshs' 000
14	**REVALUATION RESERVE**		
	Land and buildings	981,267	638,549
	Storage tanks	2,523,345	2,268,552
	Plant and machinery	91,578	95,716
		3,596,190	3,002,817
	The movements of reserves were as follows:		
	Land and buildings		
	At start of year	638,549	667,973
	Revaluation	438,987	-
	Deferred tax on revaluation	(51,646)	-
	Transfer of excess depreciation	(29,424)	(29,424)
	Revaluation realized on disposal	(15,199)	-
	At end of year	981,267	638,549
	Storage tanks		
	At start of year	2,268,552	2,306,374
	Revaluation	418,021	-
	Deferred tax on revaluation	(125,406)	-
	Transfer of excess depreciation	(54,031)	(54,031)
	Deferred tax on transfer of excess depreciation	16,209	16,209
	At end of year	2,523,345	2,268,552
	Plant and machinery		
	At start of year	95,716	107,982
	Revaluation	11,612	-
	Deferred tax on revaluation	(3,484)	-
	Transfer of excess depreciation	(17,523)	(17,523)
	Deferred tax on transfer of excess depreciation	5,257	5,257
	At end of year	91,578	95,716

Notes to the Financial Statements for the year ended 31 December, 2016

14 REVALUATION RESERVE (Continued)

	2016 Kshs'000	2015 Kshs' 000
Total		
At start of year	3,002,817	3,082,329
Revaluation	868,619	-
Deferred tax on revaluation	(180,536)	-
Revaluation realised on disposal	(15,199)	-
Transfer of excess depreciation	(100,978)	(100,978)
Deferred tax on transfer of excess depreciation	21,467	21,466
At end of year	3,596,190	3,002,817

15 SERVICE PAY PROVISION

	2016	2015
At start of year	12,177	6,944
Less: amounts utilized	(1,519)	(2,770)
(Credit)/charge to profit or loss	(234)	8,003
At end of year	10,424	12,177

The company has a service pay facility for qualifying employees. Under the plan, the employees are entitled to 15 days of their latest basic salary for each successful completed year of service.

16 DEFERRED TAXATION

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:

	2016 Kshs'000	2015 Kshs' 000
At start of year	1,177,862	1,235,794
Charge on revaluation reserve	180,536	-
Charge/(credit) to profit or loss – note 9(a)	26,341	(57,932)
At end of year	1,384,738	1,177,862

Deferred tax liabilities/(assets) and deferred tax charge/(credit) to profit or loss are attributable to the following items:

Year ended 31 December 2016	At start of year Kshs'000	Charge / (credit) to equity Kshs'000	Charge / (credit) to profit or loss Kshs'000	At end of year Kshs'000
Deferred tax liabilities				
Property, plant and equipment				
- historical cost	292,824	-	(23,112)	269,711
- revaluation	1,013,258	180,536	(21,466)	1,172,327
Unrealised exchange differences	(17,471)	-	35,612	18,141
	1,288,611	180,536	(8,967)	1,460,179

Notes to the Financial Statements for the year ended 31 December, 2016

16 DEFERRED TAXATION

	At start of year Kshs'000	Charge / (credit) to equity Kshs'000	Charge / (credit) to profit or loss Kshs'000	At end of year Kshs'000
Deferred tax assets				
Provision for leave and long-term services due	(4,610)	-	140	(4,470)
Other provisions	(106,139)	-	35,168	(70,971)
	110,749)	-	35,308	(75,441)
Net deferred tax liability	1,177,862	180,536	26,341	1,384,738
Year ended 31 December 2015				
Deferred tax liabilities				
Property, plant and equipment				
- historical cost	313,175	-	(20,351)	292,824
- revaluation	1,034,724	-	(21,466)	1,013,258
Unrealised exchange differences	18,136	-	(35,607)	(17,471)
	1,366,035	-	(77,424)	1,288,611
Deferred tax assets				
Provision for leave and long-term				
services due	(2,578)	-	(2,032)	(4,610)
Other provisions	(127,663)	-	21,524	(106,139)
	(130,241)	-	19,492	(110,749)
Net deferred tax liability	1,235,794	-	(57,932)	1,177,862

17 TRADE AND OTHER PAYABLES

	2016 Kshs'000	2015 Kshs' 000
Trade payables	1,242,113	1,221,805
Accruals and other payables	950,767	2,198,187
Provision for leave pay	4,476	3,193
Payable to related parties (note 20 (v))	92,735	5,863,915
	2,290,091	9,287,100

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

The carrying amounts of the trade and other payables are denominated in the following currencies:

	2016 Kshs'000	2015 Kshs' 000
Kshs	456,402	518,878
USD	1,833,689	8,768,222
	2,290,091	9,287,100

Notes to the Financial Statements for the year ended 31 December, 2016

17 TRADE AND OTHER PAYABLES

The maturity analysis of current trade and other payables is as follows:

	0 to 3 months Kshs'000	3 to 12 months Kshs'000	Over 1 Year Kshs'000	Total Kshs'000
Year ended 31 December 2016				
Trade payables	1,240,353	1,760	-	1,242,113
Accruals and other payables	947,767	3,000	-	950,767
Provisions for leave	4,476	-	-	4,476
Payable to related parties	92,735	-	-	92,735
	2,285,331	4,760	-	2,290,091
Year ended 31 December 2015				
Trade payables	1,145,787	76,018	-	1,221,805
Accruals and other payables	1,819,241	378,946	-	2,198,187
Provisions for leave	3,193	-	-	3,193
Payable to related parties	5,863,915	-	-	5,863,915
	8,832,136	451,964	-	9,287,100

18 DIVIDENDS PAYABLE

The movement in the dividend account during the year was as follows:

	2016 Kshs'000	2015 Kshs' 000
At 1 January	-	-
Interim dividend declared during the year	2,919,079	-
Paid during the year	(51,083)	-
At 31 December	2,867,996	-

19 CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:

	2016 Kshs'000	2015 Kshs' 000
Cash balances	235	429
Bank balances	455,215	230,732
	455,451	231,161

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

Kshs	121,772	157,560
USD	333,679	73,601
	455,451	231,161

Notes to the Financial Statements for the year ended 31 December, 2016

20 RELATED PARTY TRANSACTIONS AND BALANCES

The immediate holding company is Gulf Africa Petroleum Corporation, a company incorporated and registered in Mauritius while the ultimate holding company is Reliance Industries Limited, India. Gapco Tanzania Limited, Gapco Uganda Limited, Reliance Petro Marketing Limited and Reliance Corporate IT Park Limited are related through common holding.

The following transactions were carried out with related parties:

		2016	2015
		Kshs'000	Kshs' 000
i)	**Sales of goods and services**		
	Gapco Uganda Limited	1,889,312	3,370,006
	Gapco Tanzania Limited	253,251	938,626
		2,152,563	4,308,632
ii)	**Purchase of goods and services**		
	Reliance Industries Limited	49,103,816	139,947,968
	Gapco Tanzania Limited	-	1,487
	Reliance Corporate IT Park Limited	36,808	38,665
		49,140,624	139,988,120
iii)	**Trademark License Fee**		
	Reliance Petro Marketing Limited	69	16
iv)	**Interest Expenses**		
	Gapco Uganda Limited	-	32,260
v)	**Outstanding balances arising from sale and purchase of goods/services and loan**		
	Receivable from other related companies		
	- Gapco Uganda Limited	51,904	55,896
	- Gapco Tanzania Limited	106,821	44,806
	Receivable from related parties (note 12)	158,725	100,702
	Payable to other related companies		
	- Reliance Industries Limited	85,138	5,832,016
	- Reliance Corporate IT Park Limited	7,597	31,899
	Payable to related parties (note 17)	92,735	5,863,915
vi)	**Key management compensation**		
	Salaries and other short-term benefits	10,158	18,245

21 COMMITMENTS

i)	Operating lease commitments are as follows:		
	Not later than 1 year	-	-
	Later than 1 year and not later than 5 years	79,166	94,239
		79,166	94,239
ii)	Capital commitments as follows:		
	Property, plant and equipment	-	6,915

Notes to the Financial Statements for the year ended 31 December, 2016

	2016 Kshs'000	2015 Kshs' 000
22 NOTES TO THE STATEMENT OF CASH FLOWS		
Reconciliation of profit before taxation to net cash generated from/(used in) operations		
Profit before taxation	907,154	1,229,121
Adjustments for:		
Depreciation of property, plant and equipment (note 10)	288,678	287,629
Loss on disposal of property, plant and equipment (note 5)	3,700	-
Interest expense (note 8)	-	33,093
Interest income (note 5)	(119,635)	(82,747)
Increase/(decrease) in service pay provision	(1,753)	5,233
	1,078,145	1,472,329
Movement in working capital items:		
Inventories	5,372,770	2,593,321
Trade and other receivables	1,141,658	(434,722)
Trade and other payables	(6,997,008)	(2,416,061)
Net cash generated from operations	595,565	1,214,867

23 CONTINGENT LIABILITIES

(i) Guarantees issued by the banks on behalf of the company

- Citibank N.A – Kshs 95,000,000 (2015: Kshs 132,000,000)
- Citibank N.A – Bid Bond – Bulk Procurement System (BPS) – NIL (2015: Kshs 306,934,200 (USD 3,000,000)),

(ii) Letters of Credit on purchases made through BPS – Kshs 1,015,019,876 (USD 9,904,005) (2015: Kshs 1,044,344,195 (USD: 10,207,506))

(iii) A lawsuit was filed against the company by land owners of land in Kajiado for breach of a lease agreement between the two parties. As per the legal notice, the land owners claimed that the company had entered into a lease agreement with them for two plots for a period of 35 years commencing 1 December 1999. The case has been moved to the High Court of Kenya at Machakos. The company has filed and served a Further Affidavit in the Court. The case is set down for mention for directions in relation to the hearing of the application for security for costs. The company is yet to be served with the formal mention notice.

Having regard to a review of the circumstances surrounding the case and legal advice, the directors are of the opinion that this claim will not give rise to liabilities which will have a material effect on the financial statements, hence no provision has been made in the financial statements.

24 CAPITAL RISK MANAGEMENT

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt if any.

The capital structure of the company consists of cash and cash equivalents and equity attributable to equity holders, comprising issued share capital and retained earnings as shown in the statement of financial position.

Notes to the Financial Statements for the year ended 31 December, 2016

The company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.
- to comply with the capital requirements set out by the company'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.
- to maintain a strong asset base to support the development of business; and to maintain an optimal capital structure to reduce the cost of capital.
- The company sets the amount of capital in proportion to risk. The company 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 company may adjust the amount of dividends paid to shareholders, bonuses paid to directors or issue new shares. Consistently with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt: capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents.
- Capital comprises all components of equity.
- Debt-to-capital ratio during the year is not calculated since the company did not have borrowings.

25 FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

Market risk

(i) Foreign exchange risk

The company undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Management has in place effective policies and controls to ensure that the net exposure is kept at an acceptable level.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

	Kshs '000
At 31 December 2016:	
Financial assets	
Trade and other receivables	594,983
Bank and cash balances	333,679
	928,662
Financial liabilities	
Trade and other payables	1,740,954
Due to related party	92,735
	1,833,689
Net exposure	**(905,027)**
At 31 December 2015	
Financial assets	
Trade and other receivables	1,729,663
Bank and cash balances	73,601
	1,803,264
Financial liabilities	
Trade and other payables	(2,904,307)
Due to related party	(5,863,915)
	(8,768,222)
Net exposure	**(6,964,958)**

Notes to the Financial Statements for the year ended 31 December, 2016

Foreign exchange risk – Appreciation/Depreciation of Kshs against US Dollar by 5%

At 31 December 2016, if the Kenya Shillings had weakened/strengthen against the US Dollar with all other variables held constant, the pre -tax profit for the year would have been lower/higher by Kshs 45,251,000 (31 December 2015 – Kshs 348,248,000). A 5% increase or decrease represents management's assessment of the reasonably possible change in exchange rates.

(ii) Price risk

The company reviews its outlook for commodity prices regularly in considering the need for active financial risk management. The company does not hold investments that would be subject to price risk.

(iii) Interest rate risk

The interest rate risk exposure arises mainly from interest rate movements on the company's deposits with financial institutions. The company holds insignificant interest bearing investments hence this risk is not relevant.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the company maintains flexibility in funding by maintaining availability under committed credit lines.

Management perform cash flow forecasting and monitors rolling forecasts of the company's liquidity requirements to ensure it has sufficient cash to meet its operational needs. The company's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the company's reputation.

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

	0 to 3 months Kshs'000	3 to 12 months Kshs'000	Over 1 Year Kshs'000	Total Kshs'000
Year ended 31 December 2016				
Trade payables	1,240,353	1,760	-	1,242,113
Payable to related parties	92,735	-	-	92,735
	1,333,088	1,760	-	1,334,848
Year ended 31 December 2015				
Trade payables	1,145,787	76,018	-	1,221,805
Payable to related parties	5,863,915	-	-	5,863,915
	7,009,702	76,018	-	7,085,720

The financial risk management objectives and policies are as outlined below:

Credit risk

Credit risk arises from cash and deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that counterparty will default on its contractual obligations resulting in financial loss to the company.

Management assesses the credit quality of each customer, taking into account its financial position, past experiences and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored.

Notes to the Financial Statements for the year ended 31 December, 2016

The amount that best represents the company's maximum exposure to credit risk as at 31 December 2016 is made up as follows:

	Fully performing Kshs'000	Past due Kshs'000	Impaired Kshs'000	Total Kshs'000
Bank balances	455,215	-	-	455,215
Trade receivables	452,360	4,428	(537)	456,251
	907,575	4,428	(537)	911,466

The amount that best represents the company's maximum exposure to credit risk as at 31 December 2015 is made up as follows:

	Fully performing Kshs'000	Past due Kshs'000	Impaired Kshs'000	Total Kshs'000
Bank balances	230,732	-	-	230,732
Trade receivables	1,246,393	-	(1,042)	1,245,351
	1,477,125	-	(1,042)	1,476,083

Bank balances are held with banks that have a high credit rating. Bank balances are fully performing since they are not restricted.

The customers under the fully performing category are paying their debts as they continue trading. As at 31 December 2016, the debtors who were secured by way of letters of credit or bank guarantee were in the amount of Kshs 11,092,191 (2015: Kshs 687,209,000).

The trade receivables that is overdue and not impaired continues to be repaid. The company is actively following this.

26 EVENTS AFTER THE REPORTING DATE

There are no material events after the reporting date that would require disclosure in or adjustment to these financial statements.

27 INCORPORATION

GAPCO Kenya Limited is incorporated in Kenya under the Companies Act as a private limited liability company and is domiciled in Kenya.

28 PRESENTATION CURRENCY

The financial statements are presented in Kenya Shillings, which is also the functional currency, and all values are rounded to the nearest thousand (Kshs'000).