DEACONS

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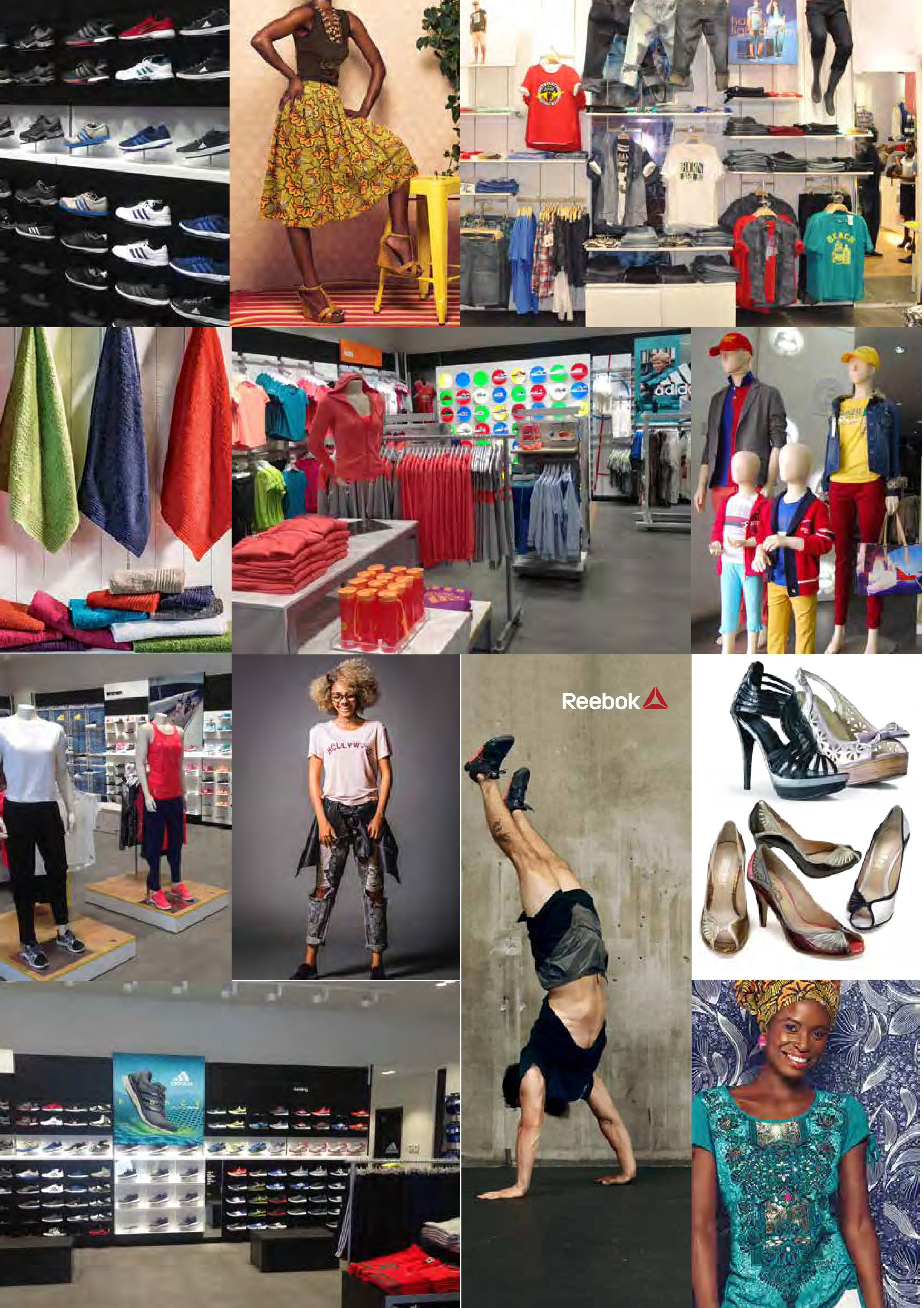
INFORMATION MEMORANDUM

2016


Reebok
adidas

DEACONS
WE MAKE YOU LOOK AND FEEL GOOD

Deacons (East Africa) PLC
Formerly known as Deacons Kenya Limited
Incorporated in Kenya under the Companies Act (No. 17 of 2015)
Registration Number C18/2010

INFORMATION MEMORANDUM

Dated: 13 July 2016

In respect of:
The Listing by Introduction on the Alternative Investment Market Segment of the Nairobi Securities Exchange of up to 123,558,228 issued Ordinary Shares of KES 2.50 each of Deacons (East Africa) PLC (formerly Deacons Kenya Limited).

This Information Memorandum is issued in compliance with the Companies Act (No. 17 or 2015), the Capital Markets Act (Cap 485A) and the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations 2002.

The Capital Markets Authority ("CMA") has approved the issue of this Information Memorandum for purposes of the Listing. As a matter of policy, the CMA assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Information Memorandum.

This document is important and requires your careful attention.

IMPORTANT NOTICE

This document is important and requires your careful attention. When considering what action to take, it is recommended that you seek financial advice from your stockbroker, investment bank or any financial adviser.

Information Memorandum overview
This document is an Information Memorandum in respect of the Listing by Introduction on the Alternative Investment Market Segment of the Nairobi Securities Exchange ("NSE") of up to 123,558,228 issued Ordinary Shares of KES 2.50 each (the "Shares") of Deacons (East Africa) PLC (formerly Deacons Kenya Limited) ("Company", "Deacons", or "Issuer") under terms outlined herein (the "Listing").

Directors' responsibility
This Information Memorandum contains information that is provided in compliance with the requirements of the Companies Act (No. 17 of 2015 of the Laws of Kenya), the Capital Markets Act (Cap 485A of the Laws of Kenya) as well as the rules and regulations made thereunder and in compliance with the Nairobi Securities Exchange Listing Manual, 2002. The Directors of Deacons, whose names appear in section 1.3 of this Information Memorandum, accept responsibility for the information contained in this document.

To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Registration and approvals
A copy of this Information Memorandum together with the documents required by section 43 of the Companies Act (Cap 486 of the Laws of Kenya – now repealed), have been delivered to the Registrar of Companies in Nairobi for registration. An application has been made to the Capital Markets Authority ("CMA") and approval has been granted for the issue of this Information Memorandum and the listing of the Shares on the Alternative Investment Market Segment ("AIMS") of the NSE. As a matter of policy, the CMA assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Information Memorandum.

Pursuant to the approval of the CMA above, the NSE has agreed to admit the Shares of Deacons on the AIMS under the security code "DCEA". It is expected that the admission of the Shares will become effective and that dealings in fully paid up Shares will commence at **9.00 a.m. on 2 August 2016**. The NSE assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in this Information Memorandum.

Approval of the Listing by CMA or admission of the Shares to the Official List are not to be taken as an indication of the merits of Deacons or of the Shares.

The Board and the Shareholders of the Company approved the Listing on 12 April 2016 and 5 May 2016 respectively.

Rights in relation to Shares
The Shares will be freely transferable and will not be subject to any restrictions on marketability or any pre-emptive rights. The Shares will be available to the general public through secondary trading on the NSE. Upon listing, the sale or transfer of the Shares will be subject to the rules and regulations of the CMA, the NSE and the Central Depositories Act (Act No. 4 of 2002 of the Laws of Kenya). The register will be maintained by the Shares Registrar.

Reporting Accountants' opinion
This Information Memorandum contains a statement from Deloitte & Touche, the Reporting Accountants. Deloitte & Touche have (given and) not withdrawn their consent to the issue of the said statement in the form and context as given in section 15 (submitted separately) of this Information Memorandum.

IMPORTANT NOTICE

Legal Advisors' opinion

Coulson Harney, the Legal Advisers, have given and not withdrawn their written consent to the inclusion in this Information Memorandum of their letter and the references to their names, in the form and context in which they appear. They have authorised inclusion of the contents of their letter as set out in section 16 of this Information Memorandum.

Forward looking statements

This Information Memorandum may contain "forward-looking statements" relating to the Company's business. These forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "is expected to", "will", "will continue", "should", "would be", "seeks" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. These statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions.

The company's actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward looking statements. Accordingly, there can be no assurance that any forward looking statements will be attained. Such statements are given to the best of the Company's knowledge, information or belief. Further, Deacons does not assume any obligation to update the industry information or forward looking statements set out in this Information Memorandum.

Miscellaneous

This Information Memorandum does not constitute an offer or invitation to any person to subscribe for or purchase any new shares in Deacons and is not marketing any new shares of Deacons. Neither this Information Memorandum nor any other information supplied in connection with the Listing is intended to provide a complete basis of any credit or other evaluation, nor should it be considered as a recommendation by Deacons, that any recipient of this Information Memorandum or any other information given in connection with the Listing should purchase any shares in the Company.

Parties contemplating purchasing any shares in Deacons after the Listing should make their own independent investigations of the financial condition and affairs of Deacons and carry out their own appraisal of its creditworthiness. In making your investment decision, we strongly recommend that you consult your investment adviser, investment bank, stockbroker, banker, accountant or any other financial adviser. The attention of investors is drawn to the Risk Factors outlined in section 10 of this document.

Shares of Deacons may not be offered or sold, directly or indirectly, and neither this document nor any other information memorandum or any prospectus, form of application, advertisement, other offering material or other information relating to Deacons or its shares may be issued, distributed or published in any country or jurisdiction, except under circumstances that will result in compliance with all applicable laws, orders, rules and regulations.

The distribution of this Information Memorandum in jurisdictions other than Kenya may be restricted by law in certain jurisdictions. Persons in possession of or who may come across these documents should and are required by the Company to inform themselves about, and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

The delivery of this Information Memorandum does not, at any time, imply that the information contained herein concerning Deacons is correct at any time subsequent to the date hereof, or that any other information given in connection with the Listing is correct as of any time subsequent to the date indicated in the document containing the same. No person is authorised to give any information or to make any representation in connection with the Listing that is not contained in this Information Memorandum. Any information or representation not contained in this Information Memorandum may not be relied on as having been authorised by or on behalf of Deacons.

IMPORTANT NOTICE

Copies of this Information Memorandum may be obtained free of charge during normal business hours on any business day from the date of this Information Memorandum until the date of Listing at the registered offices of Deacons and the Transaction Advisers whose addresses are set out in this Information Memorandum

Dated: 13 July 2016

CONTENTS

1 CORPORATE AND ADVISERS' INFORMATION

1.1 Company Information

Registered Office
Deacons (East Africa) PLC
Norfolk Towers II
Block G, 1st Floor
Kijabe Street
P.O. Box 30087 - 00100
Nairobi.

Company Secretary
Mr John L G Maonga
CPS REG.N0. 026
Jadala Place, 3rd Floor
Ngong Lane, Ngong Road
P.O. Box 73248 – 00200
Nairobi

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

1.2 Transaction Advisors

Legal Advisors
Coulson Harney Advocates
5th Floor, West Wing, ICEA Lion Centre,
Chiromo Road
P.O. Box 10643-00100
Nairobi.

Lead Transaction Adviser & Sponsoring Broker
Kestrel Capital (East Africa) Limited
2nd Floor, Orbit Place
Westlands Road
P.O. Box 40005 - 00100
Nairobi.

Share Registrar
CDSC Registrars Limited
Nation Centre, 10th Floor
Kimathi Street
P.O. Box 3464 - 00100
Nairobi.

Reporting Accountants
Deloitte & Touche
Deloitte Place
Waiyaki Way
P.O. Box 40092 – 00100
Nairobi.

1 CORPORATE AND ADVISERS' INFORMATION

1.3 Directors

	Name	Position	Nationality	Address
1.	Peter Gichuru Njoka	Non-Executive Chairman	Kenyan	P. O. Box 30087 – 00100 Nairobi.
2.	Muchiri Wahome	Chief Executive Officer	Kenyan	P. O. Box 30087 – 00100 Nairobi.
3.	Diana Bird	Non-Executive Director	British	P. O. Box 30087 – 00100 Nairobi.
4.	James Israel Olubayi	Non-Executive Director	Kenyan	P. O. Box 30087 – 00100 Nairobi.
5.	Kamami Christine Michira Mweti	Non-Executive Director	Kenyan	P. O. Box 30087 – 00100 Nairobi.
6.	Betty Muthoni Mwangi	Non-Executive Director	Kenyan	P. O. Box 30087 – 00100 Nairobi.

1.4 Financial Year End

31st December

1.5 List of Bankers

Barclays Bank of Kenya Limited
Barclays Plaza, Business Centre
Loita Street
P.O. Box 46661 - 00100
Nairobi

Bank of Africa (Kenya) Limited
Reinsurance Plaza
P.O. Box 69562 - 00400
Nairobi

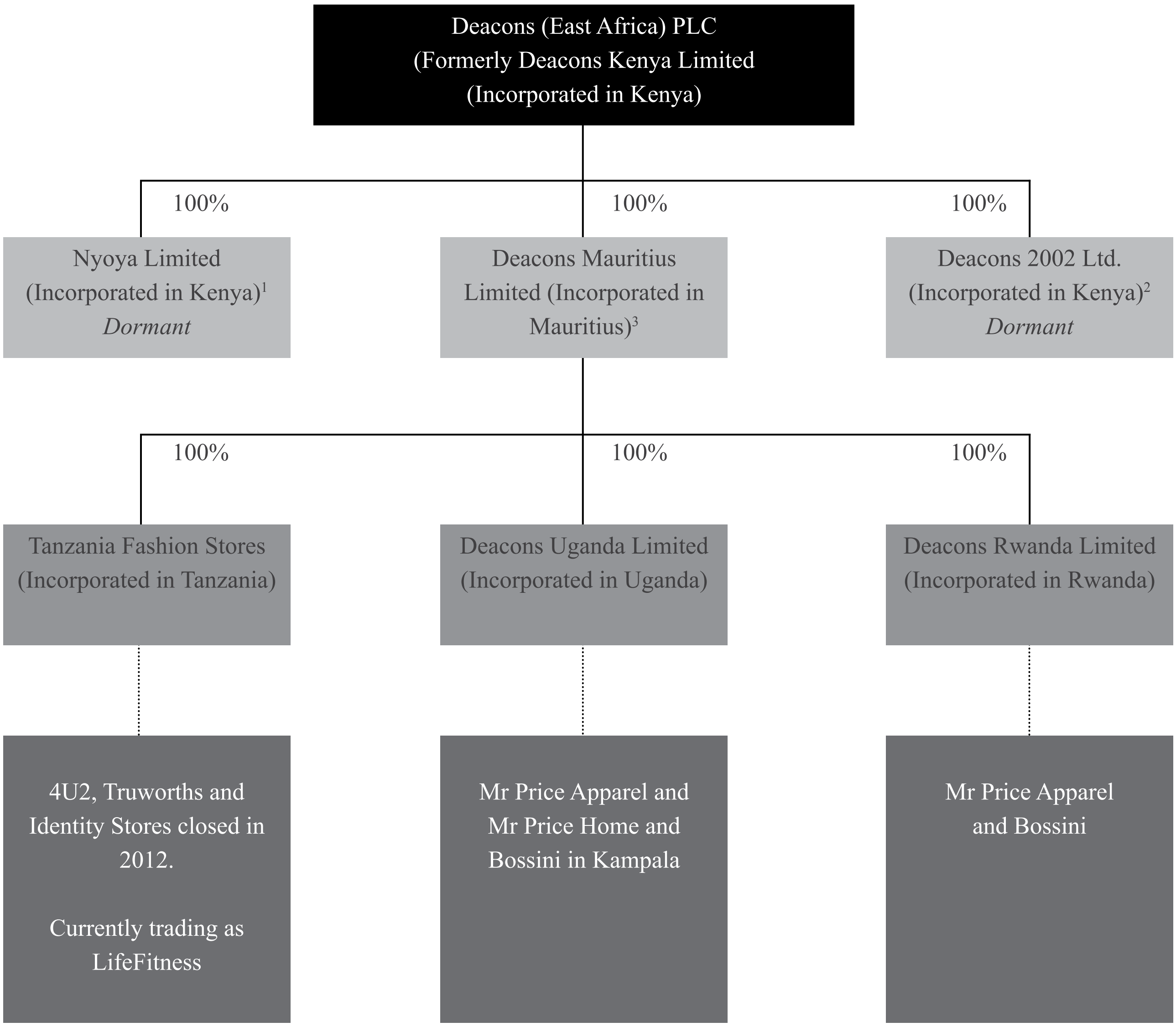
NIC Bank Limited
NIC House Branch
P.O. Box 44599 - 00100
Nairobi

UBA Kenya Bank Limited
Apollo Centre, Ring Road
P.O. Box 34154 – 00100
Nairobi

1 CORPORATE AND ADVISERS' INFORMATION

1.6 Subsidiaries and Group Structure

Deacons is both an operating company and a holding company for its subsidiaries. The chart below shows Deacons' Group structure. Please see the Corporate Overview (Section 5) for more details on the subsidiaries and group structure.



2 Definitions & Abbreviations

The following terms and abbreviations shall have the following meaning in this document

Term/Abbreviation	**Description**
"Accountants Report"	The report from the Company's auditors, Deloitte & Touche, contained in this Information Memorandum.
"AIMS"	Alternative Investment Market Segment of the NSE.
"Articles"	The Articles of Association of the Company.
"CD Act"	The Central Depositories Act, Number 4 of 2000 of the Laws of Kenya.
"CDS"	Central Depository System, an electronic share transfer system that facilitates the deposit and dealing of immobilised listed shares.
"CDS Account"	A securities account opened on behalf of a shareholder with the CDSC for purposes of dealing in immobilised shares.
"CDSC Limited"	The Central Depository & Settlement Corporation Limited, a company incorporated in accordance with the CD Act and licensed by the CMA, the operator and managing agent of the CDS.
"CM Act"	Capital Markets Act (Cap 485A of the Laws of Kenya).
"CMA"	Capital Markets Authority established by the Capital Markets Act (Cap 485A).
"Companies Act"	Companies Act (No.17 of 2015).
"Company", "Deacons" or "Issuer"	Deacons (East Africa) PLC (formerly Deacons Kenya Limited), a limited liability company incorporated in Kenya.
"Directors" or "Board"	The persons named herein as Directors of the Company.
"Employee"	Employee of Deacons at the date of this Information Memorandum.
"GDP"	Gross Domestic Product.
"Group"	Deacons (East Africa) PLC (formerly Deacons Kenya Limited) and any of its wholly owned subsidiaries or their subsidiaries.
"Information Memorandum"	This Information Memorandum together with its Schedules.
"Introduction" or "Listing"	Listing of the Shares by Introduction on the NSE.
"Kenya"	The Republic of Kenya.
"Key Shareholders"	The ten largest shareholders (the ten majority shareholders including certain members of the Board).
"KES" or "Kshs" or "K.Shs"	Kenya Shillings

2 Definitions & Abbreviations

"Listing Price"	KES 15.00
"NSE"	Nairobi Securities Exchange
"Public Offer"	The public offering of the Company's shares in 2010
"Register"	Official record of shareholders in the CDS as maintained by the CDSC
"Reporting Accountants"	Deloitte & Touche
"RWF"	Rwandan Francs
"Shareholders"	Those who are registered as holders of Shares.
"Share Registrar"	CDSC Registrars Limited.
"Shares"	Ordinary shares of KES 2.50 each in the Company.
"TShs" or "TZS"	Tanzanian Shillings
"UGX"	Ugandan Shillings
"USD" or "US$"	United States Dollars - the currency of United States of America.

3 Statement from the Chairman

13 July 2016

Dear Shareholders,

It gives me great pleasure to announce that Deacons (East Africa) PLC (formerly Deacons Kenya Limited) is listing on the Nairobi Securities Exchange.

This is in line with the promise that the Directors of the Company made during the public offer of shares in December 2010, to make best efforts to list its shares on the Nairobi Securities Exchange. It is important to note that any plan to list, is subject to satisfying the necessary eligibility criteria and obtaining the requisite approvals from the Capital Markets Authority and the Nairobi Securities Exchange.

Deacons raised KES 704,247,500 with 11,267,960 new shares allotted, during the 2010 public offer. The number of shareholders increased from 15 to 328. In the Information Memorandum issued in November 2010, we undertook to carry out a number of investment activities. I am glad to report that we have achieved most of the targets. These activities were to:

1. **Expand the store footprint of existing brands:** The Company has expanded from 25 stores at the end of 2010 to 31 stores at the end of 2015 (this number excludes stores under the Woolworths brand). We are on target to achieve a 38 store count by the end of 2016.
2. **Expand into the East African Market (particularly in Rwanda and Uganda):** The Company entered the Rwanda market in 2011 with a one store operation and is anticipating to increase this to two stores by the end of 2016. The Uganda market has grown and the store footprint has consequently increased from a single store in 2009 to three stores at the end of 2015.
3. **Pursue new opportunities and grow the portfolio of international brands:** The Company introduced the Babyshop brand in 2011, the Bossini brand in 2013 and the Reebok brand in early 2016.
4. **Develop/acquire central warehousing and head office facilities:** In order to make additional capital available for store expansion needs, the Company opted to enter into long term leases for this purpose instead of purchasing land and buildings.
5. **Actively seek reputable retailers for acquisition:** The Company continues to seek attractive brand opportunities through acquisitions, similar to its acquisition in 2010 of the Adidas and the Lifefitness brand for the East African territory, with a view of maximizing shareholder wealth.
6. **Reduce bank borrowings:** Whilst Deacons total bank borrowings net of cash declined to KES 50.5 million as at 31 December 2011 from KES 135.6 million, following the capital raise in November 2010, the Company embarked on an aggressive expansion plan, after the listing, leading to an increase of debt to KES 655 million, as at end 2015. However, following the sale of the Woolworths business in December 2015 and positive trading performance in early 2016, the debt declined to KES 300 million.

More recently, Revenue in 2015 was up by 24% against the previous year, with the Company achieving KES 2.3 billion in turnover. This was driven by the opening of a Bossini and Mr Price Store in Acacia Mall, Kampala (both in Q2 2015) and Garden City Mall, Thika Road (both in Q3 2015). The strategy in 2015, was to optimize stock holding and variety, in line with customer demands. This resulted in healthier gross margins compared to the previous year.

The increase in overall operational expenses in 2015 by 28%, compared to the previous year is directly attributable to cost of borrowings and real estate rental costs, related to new stores whose full trading potential will be realized in the near term.

The Company concluded the sale of its remaining 49% shareholding in Woolworths business in Kenya resulting in a gain in disposal of KES 64.9 million. This exit was strategic and allowed Deacons to invest and focus on its wholly managed brands and franchises. The total comprehensive income was recorded at KES 100.6 million, an increase of 73% compared to the previous year.

3 Statement from the Chairman

Going forward, in line with our 2015-2020 strategy we see continued growth in your Company, arising from:

- Growing demand from an increasing middle class segment, who demand quality goods and services of international standards;
- The rapid urbanisation in the region and the growth of retail property developments. The Company is keen to penetrate other secondary cities in Kenya and launch other brands into Kigali and Kampala. As mentioned, by end of 2016, the Company expects to have 38 stores in place;
- New opportunities that will allow us to increase our portfolio of international brands in the life style sector. The Company is in advanced discussions with several international brands that are keen to enter the East African market in the short term;
- Creating and/or acquiring local brands for a more diverse market segment; and
- The opportunity to attract a younger customer base through digital interaction.

By capitalising on the opportunities above, the Company expects to achieve a 60-store retail chain, supported by a robust e-commerce platform by 2020.

It is exciting to note that your Company, which has heritage, having traded successfully over the last 58 years, continues to be the leading fashion retailer in East and Central Africa. Total assets have increased to KES 2.49 billion in 2015 from KES 1.50 billion in 2010.

On behalf of your Board of Directors, I am pleased to present this Information Memorandum, which has been prepared to provide current and potential investors with detailed information, as well as to confirm that the Company has satisfied the Eligibility Requirements as provided for in The Capital Markets (Securities)(Public Offers, Listings and Disclosures) Regulations, 2002

Your Sincerely,

Peter Gichuru Njoka
Chairman

4 Features of the Listing

This section of the Information Memorandum highlights the main features of the Listing and should be read in its entirety for a full appreciation of the subject matter contained therein.

4.1 Key Dates

EVENT	DATE
Announcement of 2015 financial results	Tuesday, 29 March 2016
Annual General Meeting and Shareholder Approval	Thursday, 5 May 2016
Approval of the Listing by CMA	Thursday, 30 June 2016
Approval of the Listing by NSE	Wednesday, 13 July 2016
Suspension of over the counter (OTC) trading and record date	Monday, 25 July 2016
Dispatch of Information Memorandum to shareholders	Wednesday, 20 July 2016
Listing of shares at the NSE and commencement of trading of shares	Tuesday, 2 August 2016

4.2 Background to and purpose of the Listing

During the Public Offer of shares in November 2010, the Company had expressed intention to list on the Alternative Investment Market Segment (AIMS) of the Nairobi Securities Exchange (NSE). The Company has now obtained the necessary regulatory and other approvals to do so.

The primary purpose of the Listing is to offer the Company and its shareholders liquidity, exit options and price discovery in relation to the Shares.

The listing will also provide:

(i) An opportunity for stakeholders of the Company and other local and international investors to participate in the Company's growth prospects;

(ii) An opportunity for the Company to enhance its public profile and reputation, including increased brand awareness; and

(iii) Access to capital markets to raise funding for the expansion of operations in the future.

4.3 Transaction Overview

Transaction	Listing by way of introduction
Issuer	Deacons (East Africa) PLC (formerly known as Deacons Kenya Limited)
Transaction	Listing by Introduction on the Alternative Investment Market Segment of the NSE.
Issued Share Capital	123,558,228 ordinary shares of KES 2.50 each
Authorised Share Capital	123,600,000 ordinary shares of KES 2.50 each comprising a total authorised sharecapital of KES 309,000,000
Status	Upon listing, freely transferable ordinary shares ranking *pari passu* with each other
Immobilisation	Shares will be immobilised at the Central Depository prior to trading
Compliance	This Listing is subject to the requirements of the Articles, the Companies Act, the Capital Markets Act, the Nairobi Securities Exchange Listing Manual and the CD Act

4 Features of the Listing

Listing Price	KES 15.00 per share
Transaction Advisor and Sponsoring Stockbroker	Kestrel Capital (E.A.) Limited
Reporting Accountants	Deloitte & Touche
Legal Advisers	Coulson Harney
Share Registrar	CDSC Registrars Limited
Listing Date	Tuesday, 2 August 2016
Governing Law	The Laws of Kenya

4.4 Valuation and Listing Price

The proposed listing price is KES 15.00 per share.

Investors should be aware that the Listing Price is provided only as an indicative guide. Subsequent to the Listing, the shares will trade on the NSE at prices that reflect market conditions and assessment of the Company, and consequently, trading prices may differ substantially from the indicative Listing Price. The indicative Listing Price per share has been based on an independent review carried out by the Transaction Advisers, Kestrel Capital (E.A.) Limited on behalf of the Directors. The said review by Kestrel Capital (E.A.) Limited is available for inspection.

The valuation considered the macroeconomic environment and industry dynamics as well as Company specific factors. It is based on the prevailing economic, financial and capital market conditions as well as other factors which exist and are reasonably expected to affect the Company's performance and valuation.

A going concern valuation was based on the historical financial statements, financial forecasts and business plans of the Company. There were three principal approaches that were adopted to calculate a going concern value:

1. Market Approach

   The market approach method estimates the value of a company based on the comparison of operating metrics and valuation multiples for publicly listed peer companies.

   These multiples are then applied to the same financial indicators for Deacons so that the company value is determined. Kestrel Capital ranked listed, comparable African/Africa domiciled companies according to their similarity to Deacons, including business line, market capitalisation and markets of operation.

   Kestrel Capital evaluated the fair value of Deacons using P/E and EV/EBITDA multiples, which are the most common valuation metrics for companies trading publicly.

2. Income Approach

   A company's value is determined by estimating the expected future cash flows available to the firm over a long-term period and discounting them at the company's cost of capital to arrive at a present enterprise value. Net debt is subtracted from the estimated enterprise value to obtain the company's net worth or equity value.

   A Discounted Cash Flow ("DCF") model was applied. The DCF model defines the fair value of a firm as the sum of the,

   I. Present value of future cash flows, for a predetermined period, and

   II. Present value of the terminal value, calculated using a perpetual constant growth rate for cash flows beyond the projected period.

4 Features of the Listing

In the DCF method, the present value of the forecasted levered free cash flows from the company's operations is calculated in the first step. Levered free cash flow is the cash available to all of the firm's equity shareholders after considering interest bearing financial obligations.. To calculate the present value of the levered free cash flows, Kestrel Capital used the cost of equity as the discount rate. The sum of the levered free cash flows' present values (including the present value of the terminal value at the end of the forecast period) is equal to the equity value of the firm.

3. Asset Approach

A general way of determining a value indication of a business, business ownership interest, security, or intangible assets using one or more methods based on the value of the assets net of liabilities. The net asset value per share was calculated and used in this case.

A summary of the values obtained using the valuation methodologies described above is stated below.

Method	Fair Value per share (KES)
Market Approach	13.31 to 15.06
Income Approach	12.64
Asset Approach	12.52

In addition to the above methodologies, share price performance of Deacons on the OTC market was evaluated. Below is a summary of all the arm's length OTC transactions (excluding private transfers) that have occurred from 01 January 2015 to date. The volume weighted average price is KES 12.856 per share:

Date	Quantity	Price (KES)
23 May 2015	480,000	15.625
20 April 2015	1,528,636	12.000
21 October 2015	13,200	11.250
VWAP		12.856

The offer price in the 2010 public offer were reviewed and are shown below:

Year	Offer Price (KES)	Split adjusted price
2010	62.50	15.625

4.5 Key Listing Statistics

Listing price per Share	KES 15.00
Par Value per Share	KES 2.50
Total number of issued and fully paid up shares	123,558,228
Issued and fully paid up share capital	KES 308,895,570
Shareholders' equity as at 31 December 2015	KES 1,512,294,000
Net Asset Value (NAV) per share as at 31 December 2015	KES 12.52
Net profit for the year ended 31 December 2015	KES 113,750,000
EPS for the year ended 31 December 2015	KES 1.20
Dividend per share for 2015 (DPS)	KES 0.50
Trailing Price to Earnings ratio based on the Listing price	12.5x
Trailing Price to Book ratio based on Listing price	1.2x

4 Features of the Listing

4.6 Dividend Policy

The Company paid a first and final dividend of Kshs 0.50 per share for the Financial Year ended 31 December 2015.

The Board of Deacons intends to maintain a dividend policy of paying a consistent dividend to the Company's shareholders of an amount that can be sustained and which takes into consideration the Company's working capital and capital expenditure commitments.

4.7 Approvals

The information included in this Information Memorandum is given in compliance with the requirements of the Companies Act, the Capital Markets Act (Cap 485A) and the Capital Markets (Securities) (Public Offers, Listing and Disclosures Regulations 2002). A copy of this Information Memorandum together with the documents required by section 43 of the Companies Act (Cap 486 of the Laws of Kenya – now repealed), have been delivered to the Registrar of Companies in Nairobi for registration.

The Capital Markets Authority ("CMA") has approved the issue of this Information Memorandum for purposes of the Listing. As a matter of policy, the CMA assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Information Memorandum.

The NSE has agreed to admit for listing of the Shares of Deacons on the AIMS under security code "DCEA". It is expected that the admission of the Shares will become effective and that dealings in fully paid up Shares will commence at 9.00 am on Tuesday, 2 August 2016. The NSE assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed in this Information Memorandum.

Approval of the Listing of shares is not to be taken as an indication of the merits of the issuer or of the securities.

The Board and the Shareholders of the Company approved the Listing on 12 April 2016 and 5 May 2016 respectively.

4.8 Key Shareholder Lock-Up

With the exception of Aureos East Africa Fund LLC, existing shareholders (and their associated persons or such other group of controlling shareholders) with more than 3.0% shareholding, and who have direct influence over the management of the Company through representation on the Board have given an undertaking not to sell more than 50.0% of their shareholding before the expiry of 24 months from the date of listing. The CMA has granted a 50.0% waiver to these shareholders due to the fact that they have been locked up since the last Public Offer in 2010.

The CMA has granted a 100.0% waiver from the 24 month lock-up requirement to Aureos East Africa Fund LLC for the following reasons:

(i) Aureos is a financial investor who due to the nature of their business, invests on behalf of other entities (like pension funds) and would appreciate the option of liquidity to meet their financial obligations.

(ii) Aureos has previously gone above and beyond the minimum lock-up requirements in the previous Public Offer. Following the last Public Offer in 2010, Aureos has maintained its shareholding for six years which is four years above the minimum lock-up period of two years.

(iii) Aureos shareholding represents 5.53% of the issued share capital of the Company which is significantly less compared to the total shareholding of 27.75% of the Shareholders who have agreed to lock up 50.0% of their shares

(iv) Management and other strategic investors represented on the Board of Deacons have all indicated that they will comply with the lock-up requirements which should indicate confidence in the Company.

4 Features of the Listing

4.9 Consents

This Information Memorandum contains statements from Deloitte & Touche, the Reporting Accountants. Deloitte & Touche have not withdrawn their consent to the issue of the said Statements in the form and context given in this Information Memorandum in section 15 (submitted separately).

Coulson Harney, the Legal Advisers, have given and not withdrawn their written consent to the inclusion in this Information Memorandum, of their Letter in section 16 on Legal opinion and the references to their names, in the form and context in which they appear and have authorised the contents of their letter as set out in Section 16 (Legal opinion) of this document.

No approval for the distribution of this Information Memorandum in any other jurisdiction where such approval may be required has been obtained. This Information Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

4.10 Expenses of the Listing

The expenses of the Listing which will be for the account of the Company are estimated as follows (all exclusive of VAT):

ESTIMATED EXPENSES OF THE LISTING	KES '000
Transaction Adviser and Sponsoring Broker	3,000
Legal Fees	3,000
Reporting Accountants	1,800
Registrars Fees	165
Capital Markets Authority Approval Fees	772
NSE Listing Fees	1,000
Advertising and Marketing Expenses	2,000
Printing Costs	750
Other Costs	500
Total	**12,987**

Save for the expenses related to the Listing, the Company has not paid any commission or consideration relating to the acquisition of any shares of the Company during the two years preceding the date of this Information Memorandum. The expenses amount to KES 0.11 per share.

4.11 Trading of Shares

The Shares will be available to the general public through secondary trading on the NSE. Upon listing, the sale or transfer of the Shares will be subject to the rules and regulations of the CMA, the NSE and the Central Depositories Act (Act No. 4 of 2000 of the Laws of Kenya). The register will be maintained by the Share Registrar.

Before the Listing, several Shareholders opted to hold their Shares in immobilised form with the Share Registrar. Shareholders who wish to trade in the Shares after Listing should contact the Share Registrar or a stockbroker.

4.12 Governing Law

This Information Memorandum shall be governed by and construed in accordance with Kenyan law.

5.0 CORPORATE OVERVIEW

5.1 Legal Status of the Company

Deacons (East Africa) PLC (formerly Deacons Kenya Limited) was incorporated in Kenya, as a private limited liability company under the Companies Act (Cap 486 of the Laws of Kenya (now repealed)) on 20 March 1973 (registration number C11537). It was then converted to a public company on 26 October 2010 and obtained registration number C18/2010.

5.2 Registered Office and Principal Place of Business

The registered office of the Company and its head office are situated at:

NORFOLK TOWERS II, BLOCK G, 1ST FLOOR, KIJABE STREET, P .O. BOX 30087 - 00100, NAIROBI.

5.3 Principal Business

Deacons' principal business is to operate retail establishments including international franchise, distribution and own brand stores selling ladies, men's and children's clothing, footwear, accessories, toiletries, gifts, home-furnishings, cosmetics and sporting goods amongst other items in East Africa.

5.4 Share Capital	**Number of shares**	**Share capital (KES)**
Authorised ordinary shares	123,600,000	309,000,000
Issued and fully paid up share capital	123,558,228	308,895,570

The un-issued share capital of the Company is KES 104,430/= comprising 41,772 ordinary shares.

The Directors believe that the fully paid up issued share capital of the Company will be adequate for the purposes of the business of the Company for the foreseeable future.

The Directors believe that the Company has adequate working capital for the purposes of conducting the business of the Company in the foreseeable future.

5.5 Alterations to Share Capital

Except as noted below, there has been no change in the authorised and issued share capital of the Company in the immediate three years preceding the date of this Information Memorandum.

2010

At the Extraordinary General Meeting held on 26 October 2010, the Shareholders of the Company resolved to increase the authorised capital of the Company from Kenya Shillings One Hundred and Forty Million (KES 140,000,000/=) divided into Twenty Eight Million (28,000,000) ordinary shares of Kenya Shillings Five (KES 5/=) each; to Kenya Shillings One Hundred and Sixty Two Million Five Hundred Thousand (KES 162,500,000/=) divided into Thirty Two Million Five Hundred Thousand (32,500,000) ordinary shares of Kenya Shillings Five (KES 5/=) each; by the creation of Four Million Five Hundred Thousand (4,500,000) new ordinary shares of Kenya Shillings Five (KES 5/=) each to rank pari passu in all respects with the existing ordinary shares of the Company.

2012

At the Annual General Meeting held on 28 June 2012, the shareholders of the Company resolved to:

(a) Increase the authorised share capital of the Company from Kenya Shillings One Hundred and Sixty Two Million Five Hundred Thousand (KES 162,500,000/=) divided into Thirty Two Million Five Hundred Thousand (32,500,000) ordinary shares of Kenya Shillings Five (KES 5/=) each; to Kenya Shillings Three Hundred and Nine Million (KES 309,000,000/=) divided into Sixty One Million Eight Hundred Thousand (61,800,000) ordinary shares of Kenya

5.0 CORPORATE OVERVIEW

Shillings Five (KES 5/=) each; by the creation of Twenty Nine Million Three Hundred Thousand (29,300,000) new ordinary shares of Kenya Shillings Five (KES 5/=) each to rank pari passu in all respects with the existing ordinary shares of the Company.

(b) To capitalise the sum of Kenya Shillings One Hundred and Fifty Four Million, Four Hundred and Forty Seven Thousand, Seven Hundred and Eighty Five (KES 154,447,785/=) being part of the amount standing to the credit of the share premium account of the Company and to authorise the Directors to appropriate such sum to the holders of ordinary shares of Kenya Shillings Five (KES 5/=), in proportion to the number of ordinary shares of Kenya Shillings Five (KES 5/=) each held by the Shareholders respectively on 15 June 2012 and to apply such sum on behalf of such holders in paying up in full at par Thirty Million, Eight Hundred and Eighty Nine Thousand, Five Hundred and Fifty Seven (30,889,557) of the unissued shares of Kenya Shillings Five (KES 5/=) in the capital of the Company, such shares to be allotted, distributed and credited as fully paid up to and amongst such holders in the proportion of one (1) new ordinary share for every one (1) ordinary share of Kenya Shillings Five (KES 5/=) then held on 15 June 2012, and that such new ordinary shares of Kenya Shillings Five (KES 5/=) each shall rank for all purposes pari passu with the existing issued ordinary shares of Kenya Shillings Five (KES 5/=) each of the Company.

(c) To sub-divide each of the ordinary shares of Kenya Shillings Five (KES 5/=) in the present capital of the Company, both issued and unissued, into (two) 2 ordinary shares of Kenya Shillings Two and Fifty Cents (KES 2.50) each effective on 15 June 2012.

No other share of the Company has been issued, or agreed to be issued, within the three years preceding the date of this Information Memorandum or is now proposed to be issued, fully or partly paid, for a consideration other than cash.

5.6 Current Shareholding

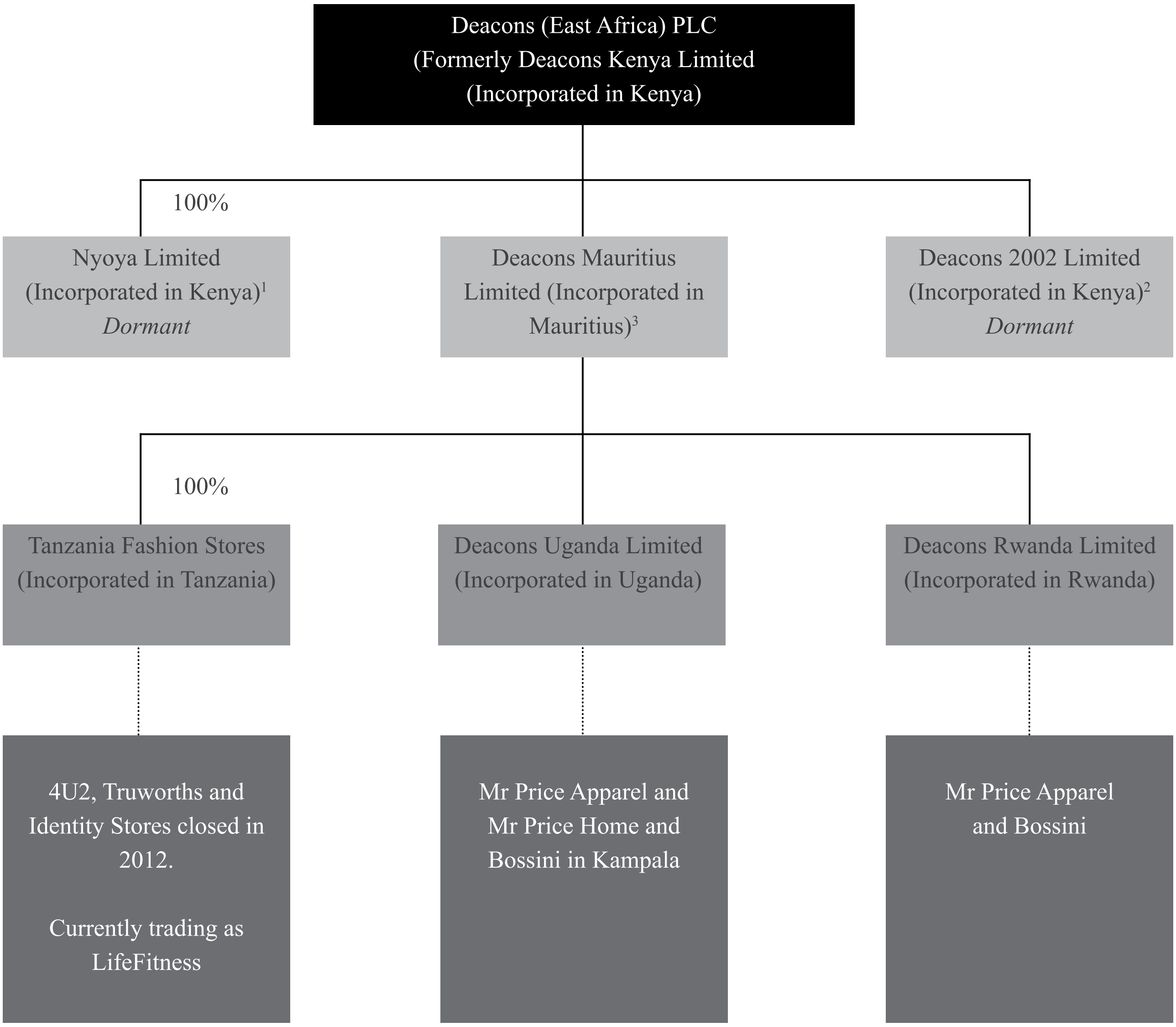
The top 10 majority shareholders of the Company as at 30 June 2016 are:

	SHAREHOLDERS NAMES	SHARES	%
1	SWEDFUND INTERNATIONAL AB	17,330,656	14.03%
2	PINPOINT INVESTMENTS LIMITED	10,784,280	8.73%
3	DIANA BIRD	9,839,656	7.96%
4	CHARLES MWANGI GATHURI	9,340,852	7.56%
5	KIRIMARA LIMITED	8,031,332	6.50%
6	TRI-KAY DEVELOPMENT CO. LTD.	6,869,092	5.56%
7	AUREOS EAST AFRICA FUND LLC	6,837,548	5.53%
8	KESTREL CAPITAL NOMINEES LIMITED A/C PEREGRINE EQUITY LLC	5,120,000	4.14%
9	MUCHIRI WAHOME	4,313,268	3.49%
10	OLD MUTUAL LIFE ASSURANCE CO. LTD.	3,733,332	3.02%
	TOP 10 SHAREHOLDERS	**82,200,016**	**66.05%**
	OTHERS (374 SHAREHOLDERS)	**41,943,456**	**33.95%**
	TOTAL (384 SHAREHOLDERS)	**123,558,228**	**100.00%**

5.0 CORPORATE OVERVIEW

5.7 Group Structure

Deacons is both an operating company and a holding company for its subsidiaries. The table below sets out details of Deacons subsidiaries



(1) Deacons (East Africa) PLC (formerly Deacons Kenya Limited) acquired all the fixed and movable assets and the exclusive right to carry on business in succession of Nyoya Limited with effect from 1 January 2010. Consequent upon this transfer, Nyoya limited ceased to trade and is currently dormant

(2) Deacons (East Africa) PLC (formerly Deacons Kenya Limited) acquired all the fixed and movable assets and the exclusive right to carry on business in succession of Deacons 2002 Limited (incorporated in Kenya) with effect from 1 January 2010. Consequent upon this transfer, Deacons 2002 limited ceased to trade and is currently dormant

(3) Deacons Mauritius Limited (incorporated in Mauritius) on 1 July 2010 as an investment holding company and subsequently acquired 100% shareholding in Tanzania Fashion Stores Limited and Deacons Uganda Limited from Deacons (East Africa) PLC (formerly Deacons Kenya Limited). In 2011, it acquired 100% shareholding in Deacons Rwanda Limited

6 BUSINESS OVERVIEW

6.1 Company's Vision and Mission

The vision of the Company is: "Passionately connecting customers to their desired lifestyle in East Africa by 2020" and its mission is "We make you look and feel good".

6.2 Company History

Deacons started its operations in 1958 as a Marks & Spencer franchisee. The business was incorporated into the Company in 1973 and traded successfully under this franchise until 1980. Due to import restrictions, this franchise was relinquished in 1980, and the Company shifted to local products by working with the local industry to supply its stores.

With the liberalisation of the economy in the 1990's, Deacons started to redevelop its relationships with international brands and in 1994, a distribution agreement was reached with Woolworths of South Africa, and a full franchise signed in 2002. In 1999, Deacons acquired the Truworths franchise. A further franchise agreement was entered into with the Truworths Group for their Identity brand in 2006. In 2007, franchise agreements were secured with Mr Price Home and Clothing, also from South Africa.

In order to be less dependent on South African companies and to diversify its product offerings, Deacons began developing its own brands. This includes 4U2, selling discounted internationally branded fashion and the Angelo's brand launched in 2008, selling shoes, bags and accessories. The Company acquired the rights to retail and distribute the Adidas sporting brand in 2010. As part of the strategy to build a division in the sporting and wellness segments of the market, Deacons entered into an exclusive distribution agreement with the master franchisee who holds the franchise for LifeFitness, a well-known brand for gym equipment, covering the East Africa region. Its first showroom opened in late 2010 at the Sarit Centre. The LifeFitness and Adidas brands are sourced out of the United States and Dubai, respectively.

In 2007, Deacons opened its doors in Tanzania with three stores under the franchise operations of Truworths, Identity and its own 4U2 brand. In 2011, the Company closed down the loss making retail operations in Dar es Salaam but continues to market its LifeFitness gym brand in Tanzania. In 2009, Deacons Uganda Limited commenced trading with a Mr Price fashion store.

In December 2011, Deacons Rwanda Limited opened two stores under the franchise arrangement of Mr Price Fashion and Home. In the same year, Deacons introduced the Babyshop brand from the Dubai based Landmark Group at the Junction Mall and Sarit Centre in Nairobi.

In 2013, the Company launched the Bossini brand to replace the underperforming Identity stores and concluded the JV transaction with Woolworths Mauritius. More recently, Deacons completed the sale of its interest in Woolworths Kenya Proprietary Limited in 2015. In addition, the Company has opened stores at the Thika Road Mall, Sarit Center (to replace Westgate Operations), Garden City Mall and The Hub. In Uganda, the Company opened two stores at the Acacia Mall, Kampala in 2015.

The Company successfully launched two stores (Adidas and Reebok) at The Hub in Karen on 4 March 2016. It plans to launch 4 stores at the soon to be largest mall in Sub Saharan Africa (Two Rivers Mall) in Nairobi later this year when construction is completed. In addition, the Company continues with its regional growth strategy and will be opening two stores at the modern Kigali Heights Mall, Rwanda later this year when construction is completed.

Brands and Business Models

The Company operates the following well-known brands under the business models highlighted:

1. Babyshop in Kenya, Uganda and Rwanda (Franchise)
2. Truworths in Kenya (Franchise)
3. Mr Price in Kenya, Uganda and Rwanda (Franchise)
4. Mr Price Home in Kenya, Uganda and Rwanda (Franchise)
5. Adidas in Kenya, Uganda and Rwanda (Distribution Agreement)

6 BUSINESS OVERVIEW

6. LifeFitness in Kenya, Uganda, Tanzania, South Sudan, Rwanda and Burundi (Exclusive Distribution Agreement)
7. Bossini in Kenya, Uganda and Rwanda (Distribution Agreement)
8. 4U2 in Kenya (Own Brand)
9. Angelo in Kenya (Own Brand)

Store Network

Shops	**Kenya**	**Uganda**	**Rwanda**	**Total**
Mr Price Apparel	6	1	1	8
Mr Price Home	5	0	0	5
Mr Price Combo	1	1	0	2
Babyshop	3	0	0	3
Truworths	3	0	0	3
4U2	3	0	0	3
Angelo	3	0	0	3
Bossini	5	1	1	7
Adidas	3	0	0	3
LifeFitness	1	0	0	1
Total	**33**	**3**	**2**	**38**

The store count is based on what is expected by the end of 2016.

6.3 Brand Description

Deacons' business activities are based around the Company's franchises and brands. These comprise the following:

6.3.1 Mr Price - "Something new every day"

The Mr Price brand is about value and high fashion offering fashionable apparel at competitive prices for men, women and children. It's a fun and energetic brand that drives volume sales based on the business model that penetrates a fairly wide target market.

6.3.2 Mr Price Home – "The greatest home and lifestyle place to be"

Mr Price Home is about affordable modern living, ranging from the latest in contemporary home settings in bathroom, bedroom, kitchenware, and home accessories. Great value, quality and innovative design form the basis for Mr Price Home's wide range of coordinated home products. This brand attracts customers who are contemporary, young at heart and appreciate the finer things in life.

6.3.3 Adidas – "First never follows"

Adidas is one of the world's leading brands and competes with Nike for global market share. Adidas's key divisions are sport performance, originals and sport style. The sport performance represents the core of the business with the other divisions offering lifestyle and street wear dressing. The brand promises to provide the target consumer high performance, fashion and fun. It is the first brand that primarily targets the male customer thereby further diversifying the Company's customer and income base.

6 BUSINESS OVERVIEW

6.3.4 Reebok – "Be more human"

Reebok is a global athletic footwear and athletic brand that includes sporting and fitness shoes, work out apparel, training equipment and accessories. In August 2005, Adidas acquired Reebok as a subsidiary, uniting two of the largest sport outfitting companies, but maintaining operations under their separate brand names.

6.3.5 Babyshop – "The one stop shop for all your children's needs"

The Babyshop brand was introduced in 2011 at the Junction and Sarit Center. The brand is a one stop shop for parents with newborn babies to children at the age of 8 years. The product categories include girls and boys clothing, travel, car seats, toys, furniture, feeding amongst many other product offerings. The brand targets the discerning parent looking for quality, value for money and fashion.

6.3.6 Bossini – "Be Happy"

Bossini is the newest brand addition to the Deacons family. Bossini was introduced as a replacement to the underperforming Identity stores. Bossini is an international brand headquartered in Hong Kong. The brand Bossini offers casual contemporary fashion in apparel products including men's, ladies', youth and children's wear.

6.3.7 LifeFitness – "What we live for"

This is the world's leading commercial fitness equipment manufacturer. LifeFitness offers over 300 different cardio and strength training equipment, a wide range of support services and proven industry leadership brand position. The brand caters for the domestic residential and the commercial hospitality industry. This is indeed one of the fastest growing sectors in the lifestyle market in the world. The brand is durable, comfortable, and innovative with cutting edge technology and provides high quality performance with unbeatable warranties. Deacons has a showroom for the brand at the Sarit Centre Mall which complements its direct selling business model to penetrate the regional market including Kenya, Uganda, Tanzania, Burundi, South Sudan and Rwanda.

Both Adidas and LifeFitness are the first steps towards building a Fitness, Sporting and Wellness division within the Deacons portfolio.

6.3.8 Truworths – "For the love of fashion"

Truworths offers a collection of fashion-forward leisure wear, formal wear, glamour wear, lingerie, jewellery, shoes, bags and fashion accessories aimed at "the young at heart", the trendy and quality conscious individual who seeks inspired, innovative and adventurous fashion styling of international standards. The first Truworths store in Kenya was launched in 1999 at the Sarit Centre.

6.3.9 4U2 – "Dress sense less cents"

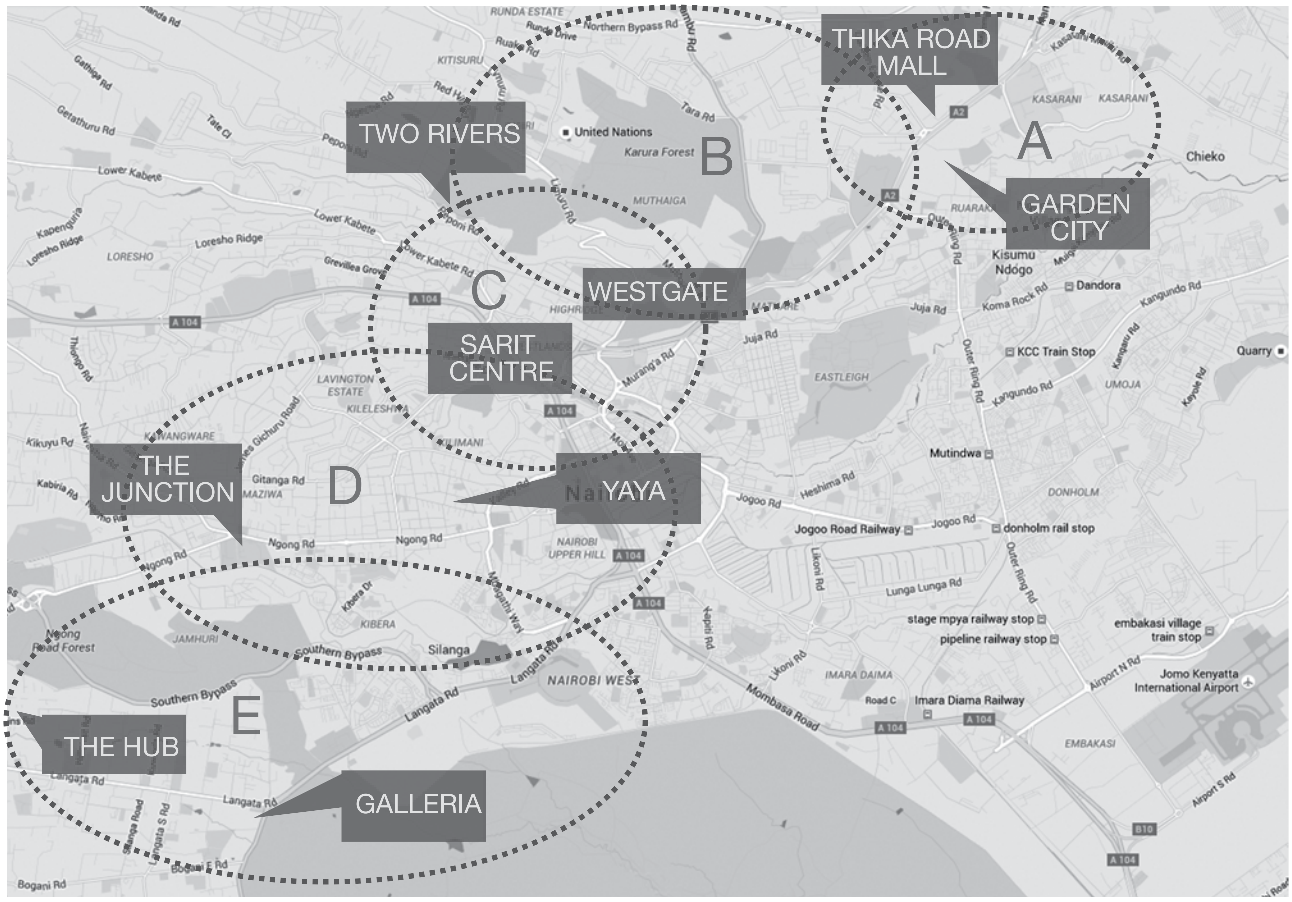
The 4U2 brand was introduced into the Kenyan market in 2004. This is a wholly owned brand and offers bargain hunters access to international brands at amazing value. The business model is based on stock lots, out of season and excess stock from leading brands around the world. It provides a wide array of product including ladies, mens, kids and accessories with well-known labels.

6.3.10 Angelo – "Step into our World"

Angelo is a wholly owned brand and was launched after market research that established that there was a void in the footwear market for the middle and upper middle class customer. In addition, the majority of fashion retailers, including Deacons managed brands, carried shoe ranges as a secondary offer. The brand has a wide assortment including shoes for ladies, men, jewellery, handbags and other accessories.

6 BUSINESS OVERVIEW

6.4 Nairobi Catchment Area

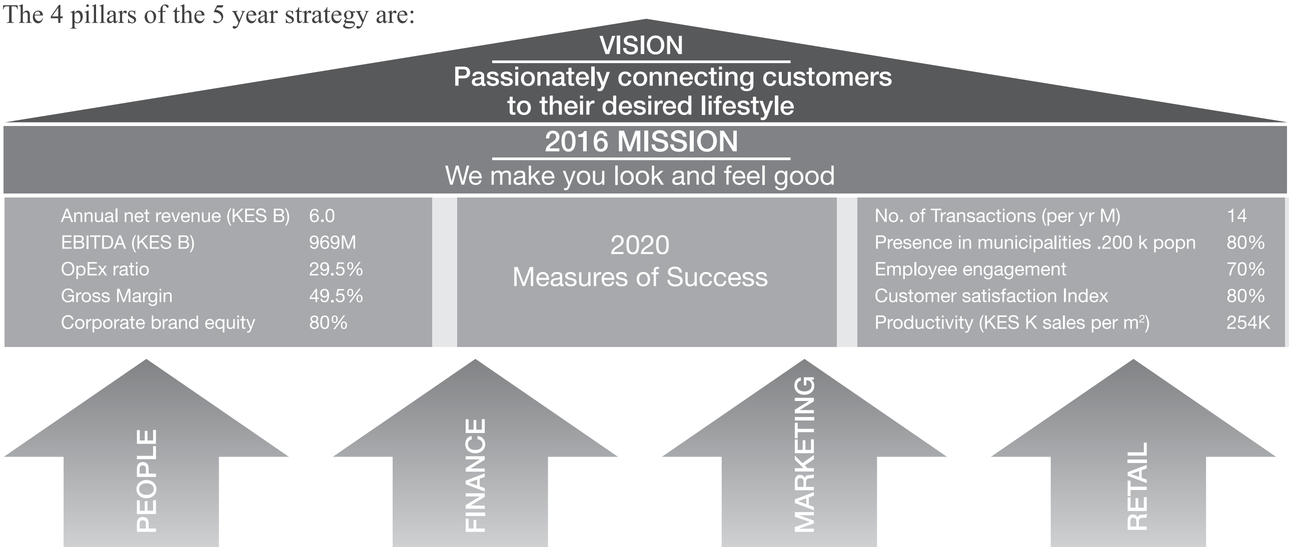


Source: Fernridge report, Google maps

Five affluent mall catchment areas were identified based on industry interviews. As observed, mall density is on average two per catchment area. Deacons has a presence in every catchment area of Nairobi and in nine out of the ten shopping malls listed above.

6.5 Deacons Strategy 2016-2020

The 4 pillars of the 5 year strategy are:



6 BUSINESS OVERVIEW

6.5.1 People

The Company places great value in the acquisition, training, retention of its people through an HR strategy that rewards performance and great customer service. This is supervised by a committee of the Board in order to ensure best practices.

Our core values are stewardship, professionalism, integrity, agility, fun and fairness.

The organisation is an equal opportunity employer that adheres to best labour practices and ensures that the working environment is conducive and that customers receive the best in class service.

Key initiatives that will optimise our human capital;

- To achieve a motivated and inspired work force
- To retain a skilled and trained workforce that exceeds customer expectations
- To offer opportunities for growth and career development in retail
- To provide a fully automated Human Resource management platform that addresses employee engagement

6.5.2 Marketing

The marketing strategy of the Company over the 5 year period will be multi- channel approach that will be primarily driven by digital and social media assets. The ultimate objective is to create a customer loyalty programme and an e-commerce platform as an additional revenue stream. Key initiatives for this include;

- Development and deployment of social media platforms
- Development of a strong customer data base
- Launching a loyalty program
- Launching an e-commerce platform

6.5.3 Finance

The continued growth and expansion of the Company will require new and innovative funding channels that will ensure that the overall costs of business reduces as the store footprint increases. Key initiatives in finance will include;

- The listing of the Company shares will give the Company new avenues for raising capital and managing the capital structure.
- Diversifying our asset portfolio in order to improve our balance sheet and increase shareholder value.
- The recent successful implementation of a fully integrated enterprise resource planning (ERP) system allows the business to address customer requirements and operational efficiencies at a micro level. The business will focus on optimizing this investment.
- Increasing the operating margin through economies of scale and improved business processes.
- Increasing and giving customers options on settlement modes such as credit facilities etc.

6.5.4 Brands

In an ever changing and competitive retail landscape, the Company will continue to invest in retail formats and brands that are relevant and desirable to the targeted customer audience. As such, the following will be the key drivers for retaining leadership in the sector;

- **Brands:** The Company is at an advanced stage of signing up international brands that will offer differentiated fashion with great value propositions.

6 BUSINESS OVERVIEW

- **Retail Footprint:** The continued growth of retail property offers the Company an opportunity to optimize its store presence. More attractively, following the devolution in Kenya, key secondary towns are being evaluated in order to inform what brands could be launched in this cities.
- **Regional expansion:** Uganda and Rwanda provide the Company with the opportunity to launch all the brands in its portfolio having operated in those markets in the last five years.
- **Speciality:** Capitalizing on opportunities in various niche retail categories such as outdoor sporting, plus sizing, accessories, cosmetics and other speciality store formats will diversify the Company's product offering while meeting the ever changing needs of the customer.
- **Digital Strategy:** To provide dynamic product catalogue that resonates with the techno savvy consumer.
- **Acquisitions and Disposals:** The Company would like to partner with local retailers who have built great brands and are seeking to further enhance their operations.
- **Supply Chain:** The Company operates a central supply chain and logistics centre that supports the various business models within each brand. This is operated on the same ERP system that is fully integrated with financial reporting, front office purchasing and procurement. Following the successful implementation of ERP phase I, the Company is currently evaluating additional modules to further enhance the optimization of the system to improve efficiencies.

7 INDUSTRY OVERVIEW

7.1 Size of the Retail Market and Apparel/Footwear market in Kenya

The rise of the middle class with higher disposable incomes and lower transport costs as a result of improved road infrastructure, are key in promoting retail growth. Population growth and the projected positive economic growth will drive increased demand. In addition, growth is set to be supported by the increasing rate of urbanization and increased local and international investment by players in the East African market, which is expected to boost retailing in the region. Over the last two years, there was an increase in international brands setting up shop to tap into the growing middle-income segment and maximize the retailing opportunity.

Over 1.3 million households, out of a total of approximately 11.4 million households in Kenya, were estimated to earn about USD 10,000+ per annum by the end of 2015. This number is expected to increase at a CAGR of 13.8% to 2.4 million households in 2020, suggesting a compelling growth in the middle class and in turn a growing market for luxury goods.

This in turn supports strong growth in the Kenya retail market from USD 21.9 billion in 2015, growing to USD 29.7 billion by 2020, and representing a CAGR of 8.75%. Consumer spending on clothing and footwear was projected to be USD 1.2 billion in 2015, growing to USD 1.7 billion in 2020, representing a CAGR of 7.0%.

Nairobi and Mombasa, Kenya's two largest economic regions, contribute significantly to this figure:

Economic region – Clothing and footwear market (USD)	2015	2020	% of Kenya market
Nairobi	265.5m	379.28m	21.9%
Mombasa	49.13m	69.2m	4.05%

Source: BMI

7.2 Competitive Landscape

The Kenyan apparel and footwear retail market is highly fragmented, comprising of many small players with less than 0.1% of the market share. Most of these are boutique shops which do not operate exclusive branded stores.

Formal Retail

- The top retail brands in Kenya are Mr Price Apparel and Home, Truworths, Babyshop, Bossini, 4U2 and Angelo (operated by Deacons through various business models), Bata Limited, Manix, City Walk, Vivo, Jade Collection and Woolworths. There is growing competition in the formal retail sector with the emergence of new brands from independent retailers.
- Recently large supermarket chains such as Nakumatt and Tuskys have introduced fashion lines in their non-food formats.
- Local companies continue to lead the local market. The limited success of foreign companies in the local retail environment can be attributed to strong competition, insufficient and expensive suitable locations and inadequate market entry strategies, among other factors.

Second Hand Clothing ("Mitumba")

The secondhand apparel (Mitumba) market comprises a large percentage of the informal market in Kenya. It is estimated that 100,000 tons of Mitumba are imported annually. Overall, the total market size of the secondhand clothing industry is hard to estimate given its informal nature. However, it is estimated to be twice the size of the formal market by volume.

The high incidence of importation of secondhand clothing exacerbates slow growth in the formal sector by offering cheap and low quality products. This has caused a fragmented retail market and reduces the competitiveness of formal retailers. A large portion of the East African retail is generated in the informal sectors. The informal sector enjoys a lower tax burden and a lower cost base. Following the introduction of stringent Certificate of Conformity (COC) importation regulations, it is hoped that the informal sector will be brought onto a level playing field for tax compliance.

7 INDUSTRY OVERVIEW

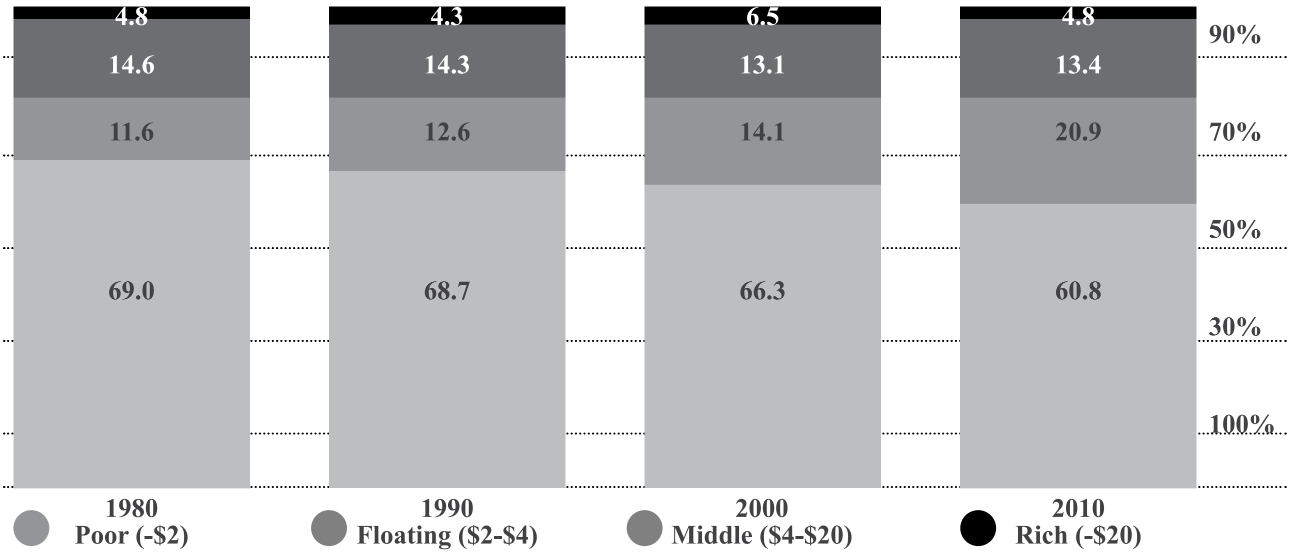
Recent announcements by the East African Community suggest that a policy shift could be implemented in the medium term to ban the importation of some secondhand goods

E-Commerce

Despite the rise in internet penetration, e-commerce activities remain relatively low in the country. Barriers to progress include high custom duty and taxes paid on imports, inadequate cyber-security systems, culture and a lack of reliable, low-cost delivery services and systems. Jumia Kenya, Kenya's largest online retailer, as at 2014, captured 3% of Kenya's apparel and footwear market, indicating a relatively small footprint. However, given 70% of Kenya's population is below 30, and as computer literacy grows, this demographic will naturally become more influential over time. An omni-channel strategy will likely become increasingly important to access this market.

7.3 Consumer

Distribution of the consumer by income (%)



Source: BMI

Changing Customer Preferences

- Kenya's middle class is rapidly expanding driving greater demand for better quality goods, which includes a growing preference for international branded apparel and footwear.
- As this trend gains momentum, there is likely to be a move away from boutique stores to formalised retail as demonstrated in developed markets.
- Customers are becoming increasingly demanding, requiring retailers to be more attentive to their requirements, and specifically to local market requirements such as:
    - Understanding the Kenyan body figure shapes when selecting sizes and stock items
    - Matching the quality, price and shoppers' experience to international standards
    - Maintaining variety/selection of current season's stock in the stores
    - Location of the stores in the most appropriate target market malls and areas

Kenya

- Kenya is a well established consumer hub in Africa and home to a developed retail and financial services sector. Pre-existing infrastructure will facilitate market entry for new participants eager to take advantage of population growth and rising living standards.
- Kenya's population is expected to grow at 2.5% per annum to 51.7mn in 2019. **** Source: BMI Research (Fitch Group)***

7 INDUSTRY OVERVIEW

Uganda

- Uganda is a growing market for the retail industry. With approximately 128,000 sq. metres of retail space under development in Kampala alone, retailers are likely to capitalize on the availability of formal retail space to increase their presence and take advantage of the rising consumer trends.
- Taking the retail industry's characteristics into account, Uganda's demographic profiles, income levels, and economic growth potential suggest strong prospects for growth in the retail sector.
- Uganda's population is expected to grow at 3.3% per annum.

Tanzania

- Formal retail is becoming more popular, especially for middle class and higher income Tanzanians seeking more sophisticated products. The retail industry will continue to benefit as these income groups grow.
- With the highest population (c. 49.0 million) and the highest population growth rate (c.3.0%) in the region, Tanzania is an attractive destination for retailers.

Rwanda

- Rwanda is promising because of favorable demographics and recent growth trends. Even though the current retail market is small, there are opportunities available in providing the consumer goods market.
- Rwanda's population is expected to grow at 2.7% per annum.

7.4 Formal Retail Sector Opportunities

Modern retail formats are in the early stages of development in many African countries, providing major opportunities for investment. While the bulk of the opportunity is currently in the food retail sector which generally targets the higher end, an increasing number of shopping malls will also target goods across the value chain.

The property retail sector in the region is witnessing renewed and increased investment. A key factor is the property boom, allowing retailers to take up prime locations near residential areas at the customer's convenience, as well as the devolution of services to rural areas, encouraging the footprint expansion of retail outlets. In the last three years, all major cities in the region have witnessed the opening of new shopping malls with Nairobi noting the greatest growth. This represents a major opportunity. In addition, a host of shopping malls are under construction. These will become strategic locations for brands.

Mall Overview

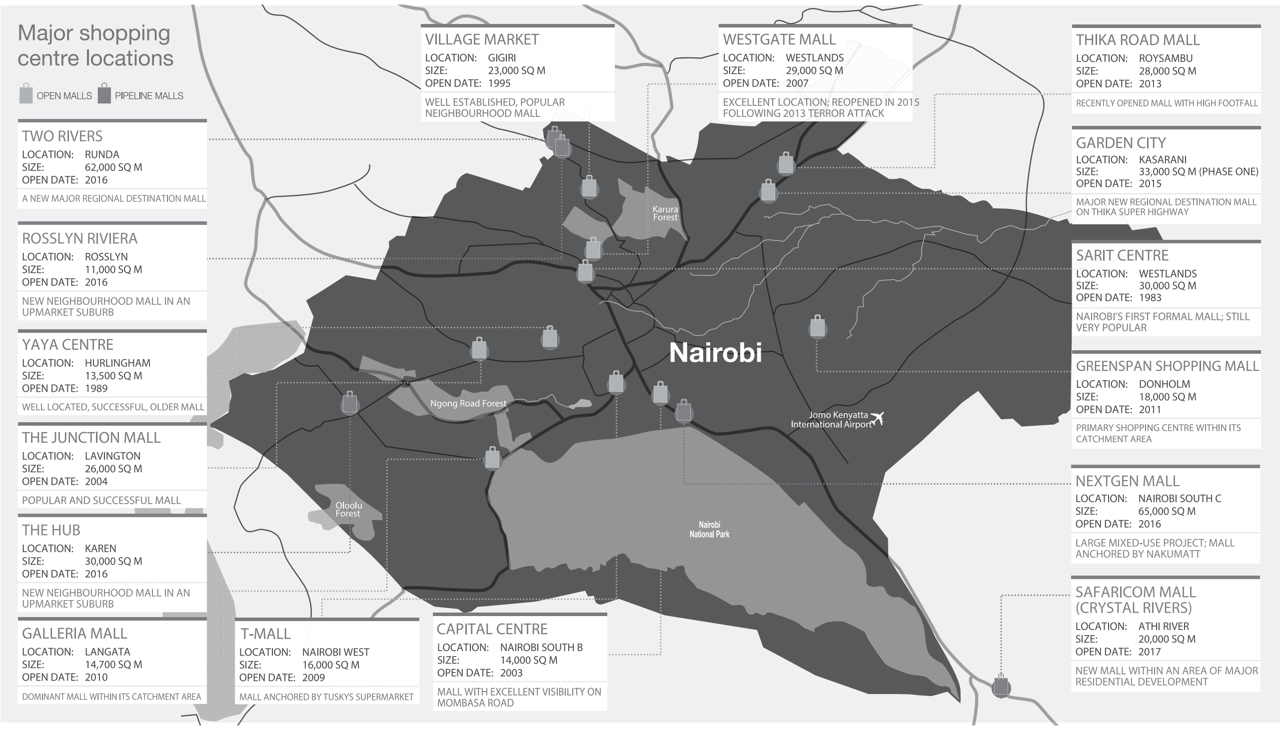
The capital city of Nairobi has been characterized by a rapid growth in mall developments over the last 5 years

- Kenya has a rapidly growing middle class with an increasing appetite for aspiration and luxury brands, and is underpinned by, amongst other factors, rapid urbanization. This trend has led to a steady rise in the number of high-end malls in Nairobi over the past two decades with, for example, two new high end lifestyle malls set to open between March and July 2016: Two Rivers Mall and The Hub.
- Nairobi has one of the largest shopping centre markets in Sub Saharan Africa with nearly 400,000 sq. m of shopping space and approximately 470,000 sq. m of shopping space in the pipeline.
- The middle income market is not restricted to Nairobi and has expanded to other towns like Kisumu, Mombasa, Nakuru, Eldoret, Naivasha, Nyeri and Nanyuki.

7 INDUSTRY OVERVIEW

Retail Malls recently built in Kenya

The rise in consumer spending has encouraged the development of commercial retail space as local and foreign retailers seek to increase their footprint in the region. Kenya has experienced an increase in popularity of decentralized shopping malls both in Nairobi and the smaller towns. We outline the existing and near –term pipeline of malls in Nairobi below, evidencing the large growth in retail space.



Source: Knight Frank (Shop Africa Report 2016)

8 ECONOMIC OVERVIEW

8.1 Kenya

8.1.1 GDP Growth

The Kenyan economy grew by an estimated 5.4% in 2015 according to World Bank Data. GDP growth was driven by increased government spending on infrastructure, a rise in private consumption and growth in private sector investment. The sectors that recorded the fastest growth were agriculture (+7.1% y/y), construction (+14.1% y/y), transport and storage (+8.7% y/y), financial intermediation (+10.1% y/y), electricity and water (+11.0% y/y), information and communication (+8.9% y/y) and mining and quarrying (+12.5% y/y).

World Bank forecasts that Kenya GDP growth will accelerate to 5.7% in 2016 and 6.1% in 2017 and 2018 driven by increased productivity as a result of investment in infrastructure by the government and in productive capital goods by the private sector. The Standard Gauge Railway which has driven government spending over the last 3 years is expected to be completed by June 2017 and will result in improved trade.

	2010	2011	2012	2013	2014	2015
Population (millions)	40.33	41.42	42.54	43.69	44.86	46.02
Population growth (%)	2.7	2.7	2.7	2.7	2.6	2.6
GDP (USD bn)	40.00	41.95	50.41	54.93	60.94	67.28
Real GDP growth (%)	8.4	6.1	4.6	5.7	5.3	5.4
GDP per capita (USD)	991.9	1012.9	1184.9	1361.2	1260.2	1462.0
Inflation Rate (%)	4.0	14.0	9.4	5.7	6.9	5.0
91 day T-Bill (%)	2.28	17.90	8.25	9.53	8.58	10.92
Exchange rate (USD)	79.23	88.81	84.53	86.12	87.92	98.18

(Source: World Bank, Kenya Bureau Statistics, Central Bank of Kenya)

8.1.2 Inflation

The Central Bank of Kenya (CBK) has a primary mandate of ensuring price stability. It, therefore, has a headline inflation target of 5.0% with allowable bands of 2.5% above and below the target. While it targets headline inflation, it closely watches non-food and non-fuel inflation (core inflation) and imported inflation which is brought about by a weakening of the KES. The Central Bank, therefore, considers the impact of exogenous factors like US interest rate hikes, a slowdown in China and changes in commodity prices when making policy decisions.

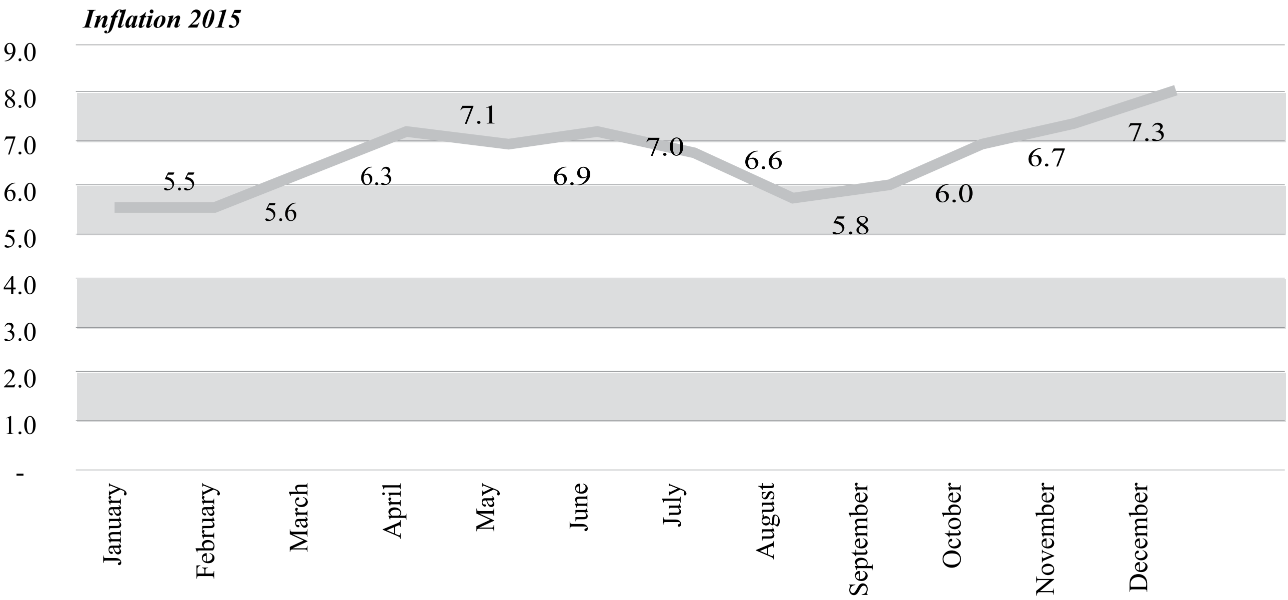
The inflation rate remained stable within the CBK's target for most of 2015 and the early part of 2016. In December 2015 and January 2016, the upper limit was breached with inflation rates of 8.0% and 7.8% before declining to 6.8% in February 2016. Going forward, the CBK is committed to price stability and is ready to raise rates when it believes the risks to headline inflation, imported inflation and core inflation are high.

The overall inflation rate is likely to remain within the target bands going forward.

	2010	2011	2012	2013	2014	2015
Inflation Rate (%)	4.0	14.0	9.4	5.7	6.9	5.0

(Source: World Bank)

8 ECONOMIC OVERVIEW



(Source: Central Bank of Kenya)

8.1.3 Interest Rates

The CBK uses interest rates as the main policy tool. Therefore, interest rates tend to be more volatile than other economic indicators. Changes in the Central Bank Rate and T-Bills filter through to consumer interest rates. The CBK raises interest rates and uses open market operations in order to curb inflation and strengthen the Kenyan Shilling. Among the key interest rates used by the CBK are the Central Bank Rate which is the target rate for the interbank rate, the Kenya Banker's Reference Rate which is a benchmark rate that allows borrowers to compare rates across the banking sector and 91-day T-bill rate which is an indicator of current market sentiment on short term rates based on money supply.

	2010	2011	2012	2013	2014	2015
Inflation Rate (%)	4.0	14.0	9.4	5.7	6.9	5.0
91 day T-Bill (%)	2.28	17.90	8.25	9.53	8.58	10.92
Exchange rate (USD)	79.23	88.81	84.53	86.12	87.92	98.18

(Source: World Bank, Kenya Bureau Statistics, Central Bank of Kenya)

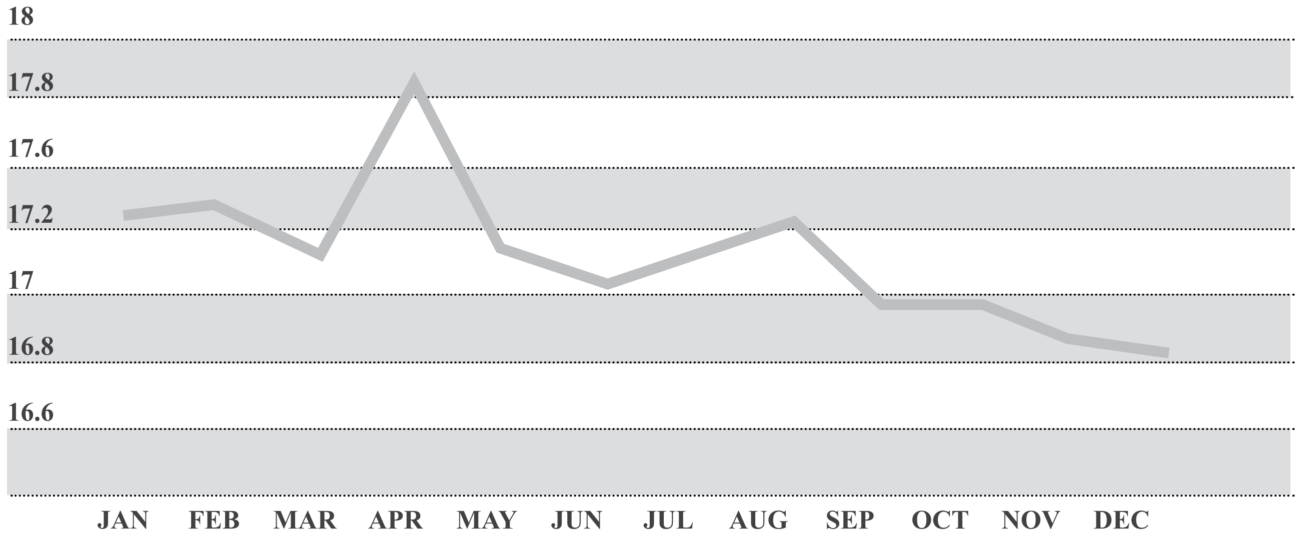
Interest rates remained relatively stable in the first half of 2015 before rising in the second half of the year. The CBK raised its benchmark rate by 150 bps in June 2015 and a further 150 bps in July 2015 and maintained it to the end of the year due to a rise in imported inflation as a result of the weakening of the Kenyan Shilling, a liquidity crunch after a shortfall in government budget financing and the closure of two commercial banks.

Consumer interest rates rose in line with the changes in the Central Bank Rate in 2015 particularly in the second half of the year as a result of the aforementioned reasons. Consumer interest rates tend to rise rapidly when Central Bank of Kenya rates increase but decline slower when CBK rates decline

The outlook for interest rates is stable given inflation is expected to remain within the targeted band. The current high interest rates recorded 1Q16 are likely to curb demand driven inflation and strengthen the KES which will in turn reduce imported inflation. Furthermore, the government received financing from a syndicated loan in November 2015 thereby reducing private sector crowding out. Also, the CBK is looking to improve the transparency in lending rates by reviewing the calculation of the Kenya Bank's Reference Rate and publishing standardised indicative rates for all the banks in order to ensure more efficient working of capital markets..

8 ECONOMIC OVERVIEW

Lending rates 2015



(Source: Central Bank of Kenya)

8.1.4 Exchange Rates

While some weakening of the KES is expected, exchange rate volatility is likely to reduce. The current account deficit narrowed in 2015 due to growth in exports and a decline in imports. Exports rose on the back of a recovery in tourism, tea and horticultural exports. The decline in imports was primarily brought about by the drop in global oil prices. Furthermore, following the receipt of funds from the syndicated loan and Central Bank purchases of foreign currency, Kenya's foreign exchange reserves are at 4.5 months import cover against the target of 4.0 months. Diaspora remittances also contribute significantly to foreign currency reserves.

2015	KES/USD	KES/GBP	KES/EUR	KES/ZAR
January	91.36	138.49	106.32	7.89
February	91.45	138.39	99.45	7.60
March	91.7	137.51	99.27	7.60
April	93.44	139.62	100.71	7.78
May	96.39	149.1	107.54	8.06
June	97.7	152.16	109.72	7.95
July	101.2	157.53	111.36	8.13
August	102.43	159.77	114.09	7.94
September	105.27	161.54	118.23	7.72
October	102.79	157.46	115.39	7.61
November	102.15	155.35	109.86	7.21
December	102.19	153.25	111.08	6.83

(Source: World Bank, Kenya Bureau Statistics, Central Bank of Kenya)

8 ECONOMIC OVERVIEW

8.2 Uganda

8.2.1 GDP Growth

The Ugandan economy is estimated to have grown by 5.0% in 2015, according to data from the World Bank, driven by increased government spending and private sector investment and consumption. The growth in private sector investment and consumption was brought about by growth in public sector spending in 2014 as a result of stable rates. The 2015/16 government budget suggested an expansionary fiscal stance.

In the first quarter of 2015, the real economic output was estimated to have been above its potential resulting in strong economic growth but also higher inflation. This along with the weakening exchange rate due to exogenous factors and a widening current account deficit resulted in the Bank of Uganda (BOU) raising interest rates and consequently, an economic slowdown in the later part of 2015.

Slowdown in economy was made worse by subdued global growth which reduced demand for exports; reduced capital flows low international commodity prices; the weakening Uganda Shilling which increased the cost of imported capital; and the impact of tight monetary and fiscal policies which weakened domestic demand. Furthermore, due to lower oil prices, investment in the oil sector is expected to be delayed.

The Ugandan economy is forecasted to grow at 5.0% in 2016 before accelerating to 5.8% in 2017 and 2018 largely driven by increased government spending and public-private partnership projects in transport and power generation. With inflation expected to decline and less volatility in the exchange rate, private sector consumption is expected to increase in the coming years.

	2010	2011	2012	2013	2014	2015
Population (millions)	33.15	34.26	35.40	36.57	37.78	39.03
Population growth (%)	3.3	3.3	3.3	3.3	3.3	3.3
GDP (USD bn)	20.18	20.26	23.24	24.66	27.00	29.75
Real GDP growth (%)	5.2	9.7	4.4	3.3	4.8	5.0
GDP per capita (USD)	608.8	591.4	656.4	674.3	714.6	762.3

(Source: World Bank, Bank of Uganda)

8.2.2 Inflation

The BOU targets inflation at 5.0%.

Inflation declined in the early part of 2015 due to lower food prices on the back of good domestic harvest, lower global inflation and a decline in crude oil prices. Real output was estimated to be above its potential level due to higher government spending and private investment and private consumption resulting in additional inflationary pressure.

In the second half of 2015, inflation rose as a result of higher food prices, partially due to the El Nino rains, an increase in electricity tariffs and the effects of exchange rate depreciation as the effects of the US tightening monetary policy began to have effect.

The BOU expects inflation to peak at 6-8% before declining in the second half of 2016 and will be within the bank's target of 5% in 2017.

	2010	2011	2012	2013	2014	2015
Inflation Rate (%)	4.0	18.7	14.0	5.5	4.3	5.2

(Source: World Bank, Bank of Uganda)

8 ECONOMIC OVERVIEW

8.2.3 Interest Rates

The BOU operates a forward looking monetary regime where it uses interest rates to maintain price stability and support growth. Commercial bank lending rates tend to change in line with changes in the Central Bank Rate.

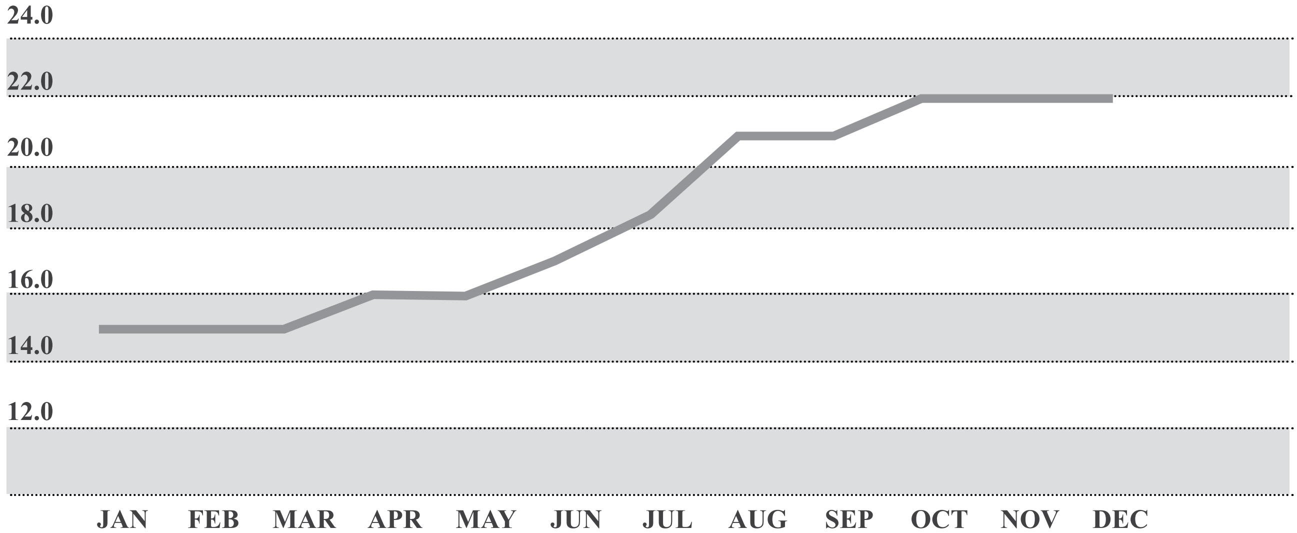
In 2015, the BOU raised the Central Bank Rate by 6% to 17% due to rising inflation on account of the weakening of the Ugandan Shilling (UGX). This was despite an expansionary fiscal stance as shown in the 2015/16 budget where the government's domestic borrowing requirement remained relatively unchanged.

	2010	2011	2012	2013	2014	2015
91 day T-Bill Yields (%)	5.10	14.61	15.70	9.93	10.23	14.38
Commercial Bank Yields (%)	8.99	18.81	23.04	15.79	15.21	18.38

(Source: World Bank, Bank of Uganda)

The commercial bank lending rates increased from the second half 2015 before leveling off in the final quarter of 2015.

Lending rates 2015



(Source: Bank of Uganda)

8.2.4 Exchange Rates

Uganda has a floating exchange rate but the BOU occasionally intervenes to curb disruptive volatility.

The UGX depreciated against the USD by 24% during the fiscal year 2014/15 with most of the weakening coming towards the end of the year. The depreciation in the UGX is due to a widening trade deficit despite savings from lower oil prices. There were also some external factors like the expected rate hike in the United States.

Balance of payments in the short to medium term are expected to remain vulnerable to external shocks. The current account deficit is expected to widen to 10.3% in 2015/16 from 8.5% in the previous fiscal year due to higher non-oil private and public infrastructure related imports, lower personal transfers and weak exports due to lower commodity prices and lower aggregate demand in key export markets.

	2010	2011	2012	2013	2014	2015
Exchange rate (USD)	2,177.56	2522.75	2504.56	2586.89	2599.79	3240.60

(Source: World Bank, Bank of Uganda)

8 ECONOMIC OVERVIEW

8.3 Rwanda

8.3.1 GDP Growth

The Rwandan economy grew by 7.4% in 2015 driven by good performance of the service sector (+7.0%), agriculture sector (+6.0%) and industrial sector (+4.0%). The performance in the service sector was driven by trade, transport, real estate, financial services, hotels and restaurants and communication as a result of foreign investment and regional market expansion. Agriculture improved following ongoing programs to increase the areas under irrigation and export crops.

World Bank forecasts that the economy will grow at 7.6% per annum over the next three years with external environmental factors posing the biggest threat to growth.

	2010	2011	2012	2013	2014	2015
Population (millions)	10.3	10.6	10.8	11.1	11.34	11.5
Population growth (%)	2.6	2.5	2.4	2.4	2.2	2.2
GDP (USD m)	5,699.0	6,407.0	7,220.0	7,522.0	7,890.0	8,876.0
Real GDP growth (%)	7.3	7.9	8.8	4.7	7.0	7.4
GDP per capita (USD)	553.6	606.9	667.4	679.0	695.7	772.5

(Source: World Bank, National Bank of Rwanda)

8.3.2 Inflation

The headline inflation rate remained stable in the early part of 2015 before recording a significant volatility in the third quarter of 2015. The volatility in the headline inflation rate was caused by erratic movements in food and transport costs. Core inflation, on the other hand, was generally low as the aggregate demand is disappointed but progressively recovering.

While we expect stable inflation in 2016, there are likely to be some inflationary pressures due to the back-loading of government expenditure, higher oil prices and volatility in food prices.

	2010	2011	2012	2013	2014	2015
Inflation Rate (%)	2.3	5.7	6.3	8.0	1.3	5.1

(Source: National Bank of Rwanda)

8.3.3 Interest Rates

The National Bank of Rwanda left its policy rates unchanged in 2015. There was a brief rise in T-Bill rates due to the government's continued reliance on domestic borrowing but this was abated later on in 2015.

The Bank is committed to maintaining price stability and controlling exchange rate volatility.

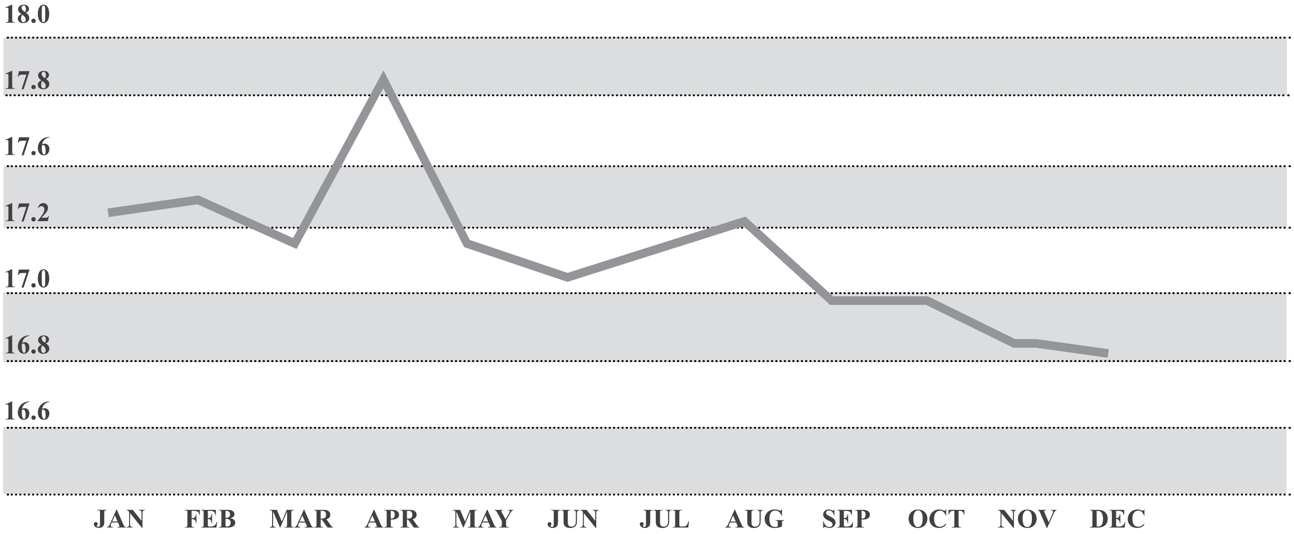
	2010	2011	2012	2013	2014	2015
91 day T-Bill	7.44	6.69	9.82	9.54	4.93	3.77
Lending Rates	17.00	16.67	16.70	17.32	17.26	17.33

(Source: National Bank of Rwanda)

Commercial bank lending rates declined throughout 2015 with a slight rise in the second quarter of the year. The lower rates are likely to drive consumer spending in 2016.

8 ECONOMIC OVERVIEW

Lending rates 2015



(Source: National Bank of Rwanda)

8.3.4 Exchange Rates

The RWF depreciated against the USD in 2015 due to the persistent wide trade deficit and the strengthening of the USD as a result of an expected rate hike in the US.

The decline in global commodity prices, the current account deficit and the strengthening of the USD are likely to remain as persistent risks to stability in the exchange rate.

	2010	2011	2012	2013	2014	2015
Exchange rate (USD)	583.13	600.31	614.30	646.64	681.86	719.96

(Source: National Bank of Rwanda)

8.4 Tanzania

8.4.1 GDP Growth

TheTanzanian economy grew by 6.9% in the first three quarters of 2015 and is expected to grow at 7.0% this year. The growth was driven by private sector investment and government spending in transport and telecommunication infrastructure and power generation. The growth has been supported by private sector credit growth and lower oil prices. The sectors that contributed the most to growth were construction, agriculture, trade and transport.

According to the World Bank, the Tanzanian economy is expected to grow at 7.2% in 2016 and 7.1% in 2017 and 2018 due to continued investment in infrastructure, expansion in private and public sector construction activities, expansion of the manufacturing sector owing to availability and reliability of power supply as the generation capacity continues to be expanded, moderation of global oil prices and strong growth in advanced economies regains ground.

8 ECONOMIC OVERVIEW

	2010	2011	2012	2013	2014	2015
Population (millions)	45.65	47.12	48.65	50.21	51.82	53.48
Population growth	3.2	3.2	3.2	3.2	3.2	3.2
GDP (USD bn)	31.41	33.88	39.09	44.39	48.06	51.42
GDP growth	6.4	7.9	5.1	7.3	7.0	7.0
GDP per capita	708.5	740.4	827.5	910.4	955.1	961.50

(Source: World Bank, Bank of Tanzania)

8.4.2 Inflation

Inflation was within the government's targets in the early part of 2015 before rising in the second half of 2015 on account of higher prices of food and a weakening exchange rate.

Inflation stabilised in the early months of 2016 supported by availability of food owing to average short rains' harvest and low domestic pump prices in light of falling global oil prices and the stability of the TZS. The risks to inflation, however, may stem from food shortages in neighbouring countries

	2010	2011	2012	2013	2014	2015
Inflation Rate	6.2	12.7	16.0	7.9	6.1	5.6

(Source: World Bank, Bank of Tanzania)

8.4.3 Interest Rates

Liquidity was tight in the earlier part of 2015 following moderate net fiscal outlays and after effects of tight monetary policy measures pursued by the Bank of Tanzania (BOT) to contain high inflation projections and the excessive volatility of TZS against the USD. As a result of the tight liquidity, the interbank rates rose from 17.99% in June 2015 to 29.98% in July 2015. The liquidity shortage temporarily abated in August 2015 due to government outlays before worsening again slightly in October 2015 due to demand for money during the elections period. Interest rates have declined in 2016 allowing for increased private sector investment and consumption on account of lower inflation.

Consumer lending rates are largely expected to track the general movement of interest rates.

8.4.4 Exchange Rates

The TZS continued to weaken against the USD in 2015 albeit with lower volatility. This was despite an improvement in the current account deficit and building up reserves. The TZS experienced some volatility in 2015 but started to stabilise in August 2015. The current account deficit narrowed by 44.2% in 2015 to USD 1,161.9 million due to an increase in the value of exports of gold, manufactured goods and receipts from tourism and transportation services, coupled with a decline in imports, value of oil, building and construction equipment and food. The Bank of Tanzania's foreign currency reserves amounted to four months import cover.

	2010	2011	2012	2013	2014	2015
Exchange rate (USD)	1409.27	1572.2	1583.00	1600.44	1654.00	2008.16

(Source: World Bank, Bank of Tanzania)

9 INVESTMENT MERITS

9.1 Leading Fashion and Lifestyle Retail Chain store in the East African region

Deacons' history goes back to 1958 from a single store operation to a total of 38 stores expected by the end of year 2016 in Kenya, Uganda and Rwanda. This history has been focused on retail operations and it now boasts nine brands targeting different market segments. As a retail chain with diversified product offerings, Deacons has grown to be the largest in East Africa. Additionally, Deacons is among the few local firms with the expertise to partner with international retailers looking to commence operations in the region. Furthermore, Deacons has operated in and understands the local markets and this gives it the opportunity to grow revenue more easily than new international retailers

9.2 Franchise Agreements and Partnerships with International Brands.

Deacons represents strong and tested franchisors, who have a wealth of retail experience in various East African markets and have a strong customer base and proven heritage. These relationships allow Deacons to tap into international trends, customer trends, best retail practices, training and marketing initiatives. The availability of a reliable supply chain on the back of these brands gives Deacons a first mover's advantage with regards to trend setting.

9.3 Premier Locations

Deacons' shops are situated in the best retail properties in the region. These are mainly the leading shopping malls in the major cities of East Africa. These locations allow Deacons to attract a captive market. Accessibility and visibility of Deacons' brands is highly rated as a result of this location strategy and therefore gives the Company the opportunity of being a sub-anchor tenant in new projects.

9.4 Growth in Retail Space

Growth in the availability of commercial retail space, especially in areas closer to residential suburbs will allow Deacons to increase their footprint. Development of shopping malls and precincts in secondary towns around Kenya driven by the devolution process provides Deacons with the opportunity to increase its presence across the country

9.5 Economies of Scale

Due to the Company's relatively large size in comparison to other retailers in the region, the Company benefits from purchasing power as a result of economies of scale. In addition, due to the fact that Deacons has many outlets, overhead, buying and distribution costs are spread over more stores. Furthermore, the marketing strategy is easier to implement as the Company has greater media bargaining power and opportunity to increase its visibility through its different brands.

9.6 Improved Capital Structure

With the sale of its shareholding in Woolworths in 2015, the proceeds from the transaction has led to an improved capital structure. This will allow the Company to capitalise on opportunities that may arise over the coming years.

9.7 Macroeconomic Opportunities

Strong economic growth, higher disposable incomes and a growing middle class will drive changes in taste to more fashionable and sophisticated clothing. These factors will bode well for Deacons

9.8 Management Capability

Deacons' senior management team has years of retail experience both in the organization and industry. At each retail unit, Deacons boasts a wealth of highly trained and motivated workforce that possesses skill sets necessary to create a world class retail environment.

9 INVESTMENT MERITS

9.9 Strong Systems and Controls

Deacons operates a centralized structure with logistics and warehousing, financial, human resources, ICT and marketing capabilities being leveraged across the group. Over the years, the Company has developed very comprehensive retail disciplines in these areas.

10 RISK FACTORS

The significant risk factors affecting Deacons businesses are detailed below. These risks and uncertainties are not the only issues that the Company faces; additional risks and uncertainties not presently known or currently immaterial may also have a material adverse effect on the Company's financial condition or business success. If any or a combination of these risks actually occur, the Company's financial condition and operating results could be adversely affected.

The Company faces various types of risk. The Board of Directors and Management therefore devote time to management of these risks. The main aim of risk management is to ensure all risks assumed in the course of the Company's business are recognised early and mitigated through effective risk management practices.

10.1 Macroeconomic Risks to the Company

10.1.1 Social, economic and political conditions

High inflation and slowdown in economic growth may adversely impact on the business environment and hence the performance of Deacons, as a result of a decline in the disposable income of consumers. The stability of the social political environment impacts consumer confidence and could therefore negatively impact Deacons performance.

The Company has addressed this through value and differential pricing, in some instances reducing gross margins in order to drive sales. The Company has also used its key/core lines to attract customers to brands that meet their basic needs and then later switch them into higher priced products. Marketing activities have also been used to increase volume sales and attract new customers. Controls on inventory days have been instituted to ensure good stock turns that keep the customer engaged and reduce risk on redundant stock. Elections in the three different countries occur at different times thereby reducing the risk of single event exposure.

10.1.2 Changes in government policies

Any changes in government policies particularly those that involve protecting the weak textile industries in Eastern Africa could threaten the current Deacons business model.

Deacons encourages the nurturing of local producers and ensure that any suppliers that meet customers' expectations can and will have access its shop floors.

Deacons continues to lobby the government to ensure a level playing field is created through equal taxation policies.

10.2 Risk Factors Relating to the Business

10.2.1 Escalating cost of doing business

Escalating expenses would have a negative impact on the business. Deacons develops long term business plans whose achievement is contingent on certain variable cost assumptions such as energy, human resources (HR) and other administrative costs. Deacons regularly reviews its cost of doing business and ensures that commercial terms are competitive and in line with best practice.

10.2.2 The highly competitive operating environment

1. The trend towards convenience shopping

The apparel retail sector around the world has very low entry and exit barriers. This allows for a multitude of entrants to further fragment and compete for market share. In addition to the direct competition from local and international clothing and accessories retailers e.g. Nike, Levis, Manix, there is increased competition from e-commerce and non-traditional players e.g., grocery retailers continue to widen their non-grocery product portfolio, predominantly in modern retail outlets, to include homewares, apparel, footwear, consumer electronics, home furnishings and kitchen and cooking appliances and thus offer a variety of products to their customers over and above grocery items.

10 RISK FACTORS

2 Uneven playing field

Driven by "one-stop-shopping", in addition to offering consumer convenience, grocery retailers use floor space to accommodate a variety of products aimed at growing sales revenues and maintaining customer loyalty.

Deacons is compliant with tax regulations and has over the years continued to lobby for the introduction of tax regimes that will create a level playing field in the market place. Other operators may not be compliant on payment of import duties and other taxes. This creates an unfair playing field which allows operators to under-price their products. Recently, the government became more vigilant on the importation of secondhand clothing and the purpose for which it is intended. However, the government has become more stringent with tax compliance on imports.

Deacons confronts these challenges through the use of universal fixed price policies, "value for money" pricing principal and offering quality products that creates trust and loyalty from customers. Offering modern and international benchmarked service and retail environments adds value to the shopping experience thus safe-guarding Deacons' customers' patronage.

10.2.3 Seasonality of sales

Deacons' turnover peaks during the Christmas season (November – December). This period contributes to approximately 20% of annual turnover. Terrorist attacks, civil unrest, natural disasters or other adverse events at any one of its outlets during this period could adversely impact the performance of the Company.

A majority of Deacons outlets are mall based. These facilities have taken adequate measures to mitigate against such calamities. In any case, it is highly unlikely that all trading units would be affected by any one such event. Deacons is insured against loss of business as a result of terrorism and natural calamities.

10.2.4 Relationships with its franchisors

A significant proportion of Deacons turnover is derived from its franchise brands. Any change in relationships or negative occurrences affecting these Franchisor brands could impact Deacons.

Deacons has ensured that all Franchise relationships are secured through renewable contracts. The Company also plans on building its own brands through international sourcing and will continue to explore new brands under franchise licenses from different territories globally. Currently, no franchisors are expected to cancel their contracts in the near term.

10.2.5 Failure to develop new store rollout

The increasing number of shopping malls both in upmarket city areas, middle class residential areas and subsidiary towns will offer new entrants an opportunity to roll out chain stores. A large portion of the sales growth anticipated is dependent on the successful rollout of new stores.

Deacons' strategy is to continue to extend the store footprint on basis of market research and risk assessment principles. This is supervised by the Board of Directors. Recent expansion has elevated the Company to the position of a sub-anchor tenant when negotiating retail property space allowing Deacons to maintain its market share.

10.2.6 Foreign Exchange risk

To date the Company is a 100% importer. As such it is exposed to foreign exchange fluctuations, especially to the South African Rand. Profits from subsidiary operations outside Kenya could also be affected if exchange rates are devalued against the Kenyan Shilling. The Company hedges its foreign exchange requirements by forward cover, when appropriate, and manages its cash flows in a prudent manner to avoid exchange rate fluctuations impacting the business negatively.

10 RISK FACTORS

10.2.7 Borrowing and interest risk

There is a risk to bank borrowings as interest rates are volatile in the region. The roll out plan for new stores is dependent on additional funding. As an NSE listed company with multiple bank borrowing facilities, Deacons will have a variety of funding options in the future.

10.2.8 Credit risk

If key customers to high value transactions or counter parties to a financial instrument fail to meet their obligations, then the Group could incur a loss.

A major part of Deacons' sales transactions are in the form of cash. The receivables are mainly represented by rent deposits and prepayments. This risk on receivables is limited to the LifeFitness business and is mitigated through the execution of legal contracts with such customers. Additionally, LifeFitness contributes less than 10% of the total Group sales.

10.2.9 Risks associated with Deacons' properties

Deacons' retail, back office and warehousing units are currently leased. This exposes the Company to rent reviews and the risk of non-renewal for these property leases.

Other properties are secured on registered renewable leases for periods ranging from five and a half years to 10 years. Rents are pegged to market rates in the event of a dispute. A due diligence by company lawyers is undertaken to ensure that properties being leased meet all government and local licensing requirements. All leases have an "option to renew" clause which gives Deacons optimal time to strategize and reposition itself. As a sub-anchor tenant, Deacons has strong bargaining power with landlords.

10.2.10 Sales concentration

Currently, a significant portion of the revenues are derived from the Mr Price franchise and from Kenya. The Company continues to introduce new brands to its portfolio which will diversify its income streams. The Company also plans to open new stores in Uganda and Rwanda which reduces the dependency on Kenya.

10.3 Risks relating to the Listing

10.3.1 Price and Liquidity Risk

Prior to this Listing, Deacons' shares have traded on the over the counter (OTC) market. Deacons cannot predict whether investor interest in Deacons' post-listing will lead to the development of an active trading market on the NSE or otherwise or how liquid and vibrant any market that does develop might be. The listing price for the Company's shares which has been determined by the Board in consultation with the Transaction Adviser may not be indicative of prices that will prevail in the open market following the Listing.

10.3.2 Other

Deacons' dividend policy (as described in the IM) permits the Board to retain the discretion to recommend dividends based on its analysis of the cash needs of the company – a process which may result in a lower than expected dividend.

11 OPERATING AND FINANCIAL HIGHLIGHTS

Financial Summary

The consolidated financial statements of the Company have been prepared in line with the applicable International Financial Reporting Standards. The following tables which have been extracted from section 15 (Reporting Accountants' Report) highlights selected financial information for the Company for the five year period ended 31st December 2015.

Income Statement

KES '000s	**2011**	**2012**	**2013**	**2014**	**2015**
Sales	**1,562,846**	**1,611,651**	**1,791,863**	**1,927,669**	**2,383,297**
Cost of Sales	(870,289)	(1,017,553)	(1,090,852)	(1,049,071)	(1,274,514)
Gross Profit	692,557	594,098	701,011	878,598	1,108,783
Gross Margin	**44.3%**	**36.9%**	**39.1%**	**45.6%**	**46.5%**
Total Income	**700,501**	**594,960**	**1,171,350**	**976,888**	**1,277,434**
Administration Expenses	(491,951)	(656,398)	(825,145)	(731,573)	(938,211)
Selling Expenses	(78,434)	(108,038)	(164,278)	(125,429)	(143,796)
Finance Costs	(21,036)	(70,019)	(84,782)	(60,273)	(79,405)
Net Foreign Exchange Gains	7,018	73,609	67,132	28,557	25,573
Total Expenses	**(584,403)**	**(760,846)**	**(1,007,073)**	**(888,718)**	**(1,135,839)**
Profit before taxation	116,098	(165,886)	164,277	88,170	141,595
Pre-tax margin	**7.4%**	**-10.3%**	**9.2%**	**4.6%**	**5.9%**
Profit before Taxation	**116,098**	**(165,886)**	**164,277**	**88,170**	**141,595**
Taxation Credit/(Charge)	(68,296)	4,999	59,703	(26,767)	(27,845)
(Loss) for the year - continuing operations	47,802	(160,887)	223,980	61,403	113,750
(Loss) for the year - discontinued operations	64,845	122,837	(45,443)	-	-

Dividend History

For the financial year ended 31 December 2015, the Board paid a first and final dividend of KES 0.5 per share (KES 61,779,114).

Dividend cover	**2011**	**2012**	**2013**	**2014**	**2015**
Profit attributable to shareholders (KES)	112,647,000	(38,050,000)	178,537,000	61,403,000	113,750,000
Dividend (KES)	38,611,947	0	0	0	61,779,114
Dividend cover	2.9x	N/A	N/A	N/A	1.8x

11 OPERATING AND FINANCIAL HIGHLIGHTS

Balance Sheet

KES '000s	**2011**	**2012**	**2013**	**2014**	**2015**
Assets					
Non-current Assets					
Furniture, fittings and Equipment	534,360	591,024	416,996	467,603	640,843
Lease prepayments	22,029	19,421	6,091	22,025	22,789
Intangible assets	16,691	5,970	3,707	8,498	54,425
Investment in associate	-	-	134,072	162,751	-
Deferred taxation	25,973	34,322	54,043	43,254	34,402
Other receivables	80,946	72,777	69,711	64,262	41,204
Current Assets					
Tax recoverable	7,164	37,809	43,451	39,545	32,234
Loan to associate	-	-	308,151	297,735	-
Trade and other receivables	100,909	145,412	97,374	84,461	531,780
Due from related parties	-	-	58,405	10,477	-
Inventories	930,667	966,572	743,896	712,898	931,979
Bank and Cash Balances	78,974	80,807	47,152	48,373	196,416
Total Assets	**1,797,713**	**1,954,114**	**1,983,049**	**1,961,882**	**2,486,072**
Shareholders' Funds and Liabilities					
Equity attributable to equity holders of the company	1,256,038	1,174,467	1,353,673	1,411,726	1,512,294
Non-current Liabilities					
Borrowings	11,230	195,870	246,203	138,381	390,632
Deferred taxation	16,775	15,696	-	-	-
Current Liabilities					
Trade and Other payables	371,182	416,449	313,316	316,457	318,999
Borrowings	118,199	151,632	69,857	95,318	264,147
Derivative Liability	23,940	-	-	-	-
Taxation payable	349	-	-	-	-
Total Liabilities	**513,670**	**568,081**	**383,173**	**411,775**	**583,146**
Total Shareholders' funds and liabilities	**1,797,713**	**1,954,114**	**1,983,049**	**1,961,882**	**2,486,072**

11 OPERATING AND FINANCIAL HIGHLIGHTS

Cash Flow Statement

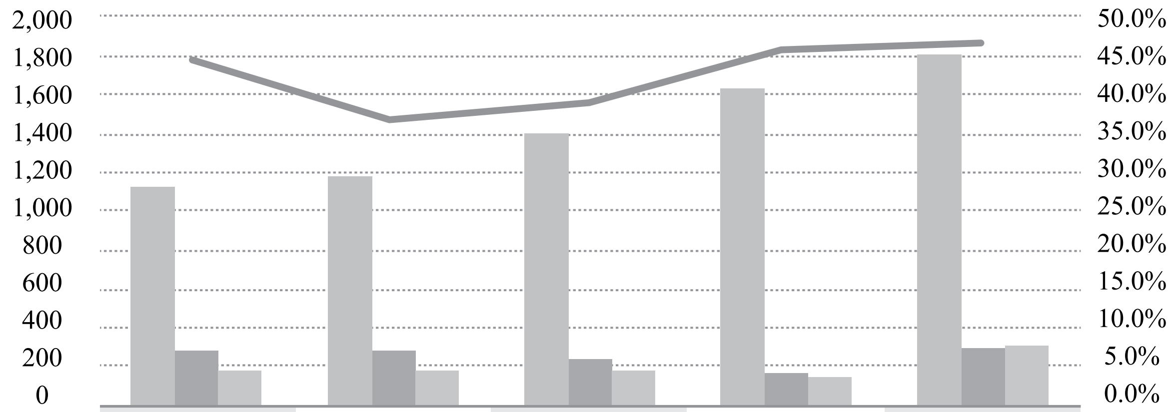
KES '000s	**2011**	**2012**	**2013**	**2014**	**2015**
Cash flows from operating activities					
Cash generated from operating activities	46,526	69,849	499,057	280,757	(483,244)
Taxation Paid	(87,596)	(32,523)	(8,878)	(13,401)	(13,280)
Net cash generated from operating activities	**(41,070)**	**37,326**	**490,179**	**267,356**	**(496,524)**
Cash flows from investing activities					
Purchase of furniture, fittings and equipment	(260,729)	(139,539)	(89,771)	(115,183)	(294,058)
Additions to prepaid operating leases	(4,538)	(5,184)	(15,190)	(19,140)	(5,942)
Purchase of intangible assets	(8,864)	(1,303)	(682)	-	-
Investment in associate	-	-	(119,050)	-	-
Proceeds from sale of interest in associate	-	-	-	-	420,454
Proceeds of disposal of equipment	4,881	63	121,417	2,284	162
Proceeds of disposal of short term deposit maturing over 90 days	200,000				
Proceeds of disposal of lease prepayments			4,018		
Net cash used in investing activities	**(69,250)**	**(145,963)**	**(99,258)**	**(132,039)**	**120,616**
Cash flows from financing activities					
Proceeds of loans	-	298,887	100,168	-	528,791
Repayment of loan	(91,241)	(58,561)	(55,269)	(104,094)	(140,055)
Loan to associate	-	-	(357,151)	-	-
Proceeds of loan repayment by associate	-	-	49,000	10,416	192,770
Interest on borrowings	(22,965)	(70,639)	(84,829)	(60,273)	(79,405)
Dividends paid on ordinary shares	(37,067)	(38,612)	-	-	-
Net cash used in financing activities	**(151,273)**	**131,075**	**(348,081)**	**(153,951)**	**502,101**
Increase/(Decrease) in cash and cash equivalents	(261,593)	22,438	42,840	(18,634)	126,193
Cash and cash equivalents at 1 January	226,072	(31,739)	(7,653)	35,033	14,521
Effects of exchange rates	3,782	1,648	(154)	(1,878)	(3,990)
Cash and cash equivalents at 31 December	**(31,739)**	**(7,653)**	**35,033**	**14,521**	**136,724**

11 OPERATING AND FINANCIAL HIGHLIGHTS

Sales

The chart below shows the trend in sales for the past five years

Sales (in KES million)



	2011	2012	2013	2014	2015
Apparel	1,117	1,178	1,390	1,624	1,799
Home	277	274	231	163	290
Sports	169	160	170	141	294
Gross margin	44.3%	36.9%	39.1%	45.6%	46.5%

Group performance

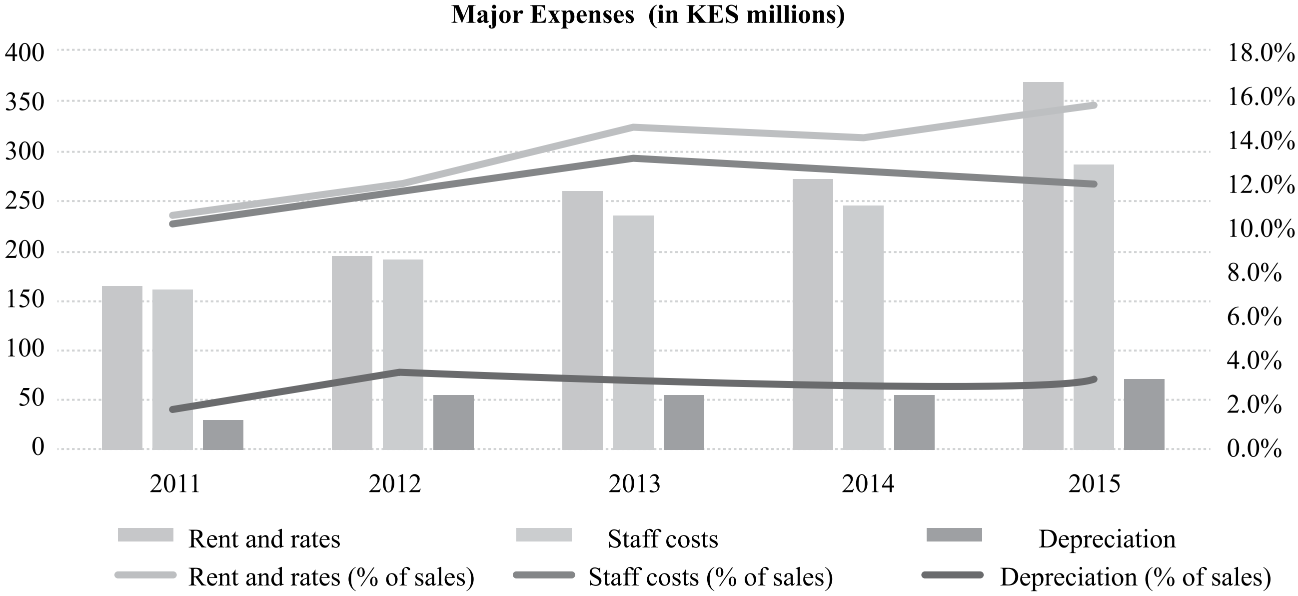
Group sales from continuing operations has increased from KES 1,563 million in 2011 to 2,383 million in 2015 due to the acquisition of new brands and opening new stores. Profit before tax from continuing operations has also grown to KES 142 million in 2015 from KES 116 million in 2010. The rise in profits has been due to better gross profit margins as a result of more appealing brands and more up-to-date stock.

Expenses

	2011	**2012**	**2013**	**2014**	**2015**
Sales	1,562,846	1,611,651	1,791,863	1,927,669	2,383,297
Administration Expenses	(491,951)	(656,398)	(825,145)	(731,573)	(938,211)
% of Sales	31.5%	40.7%	46.0%	38.0%	39.4%
Selling Expenses	(78,434)	(108,038)	(164,278)	(125,429)	(143,796)
% of Sales	5.0%	6.7%	9.2%	6.5%	6.0%
Finance Costs	(21,036)	(70,019)	(84,782)	(60,273)	(79,405)
Net Foreign Exchange(Gains)/Losses	7,018	73,609	67,132	28,557	25,573
Total Expenses	**584,403**	**760,846**	**1,007,073**	**888,718**	**1,135,839**

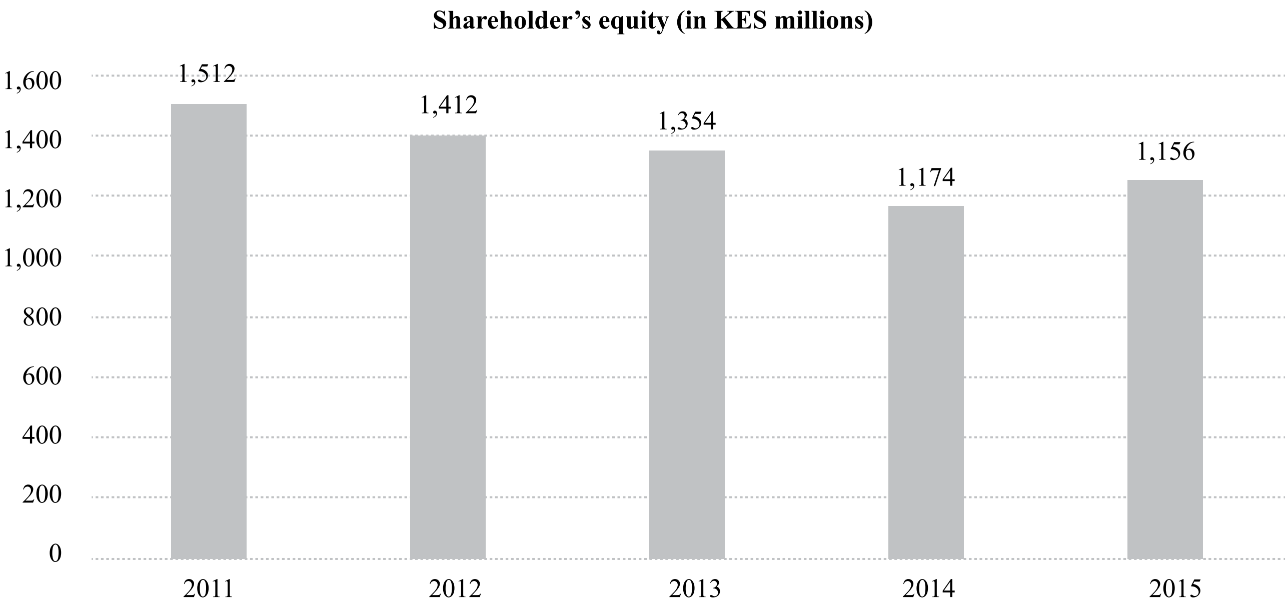
11 OPERATING AND FINANCIAL HIGHLIGHTS

Major Expenses



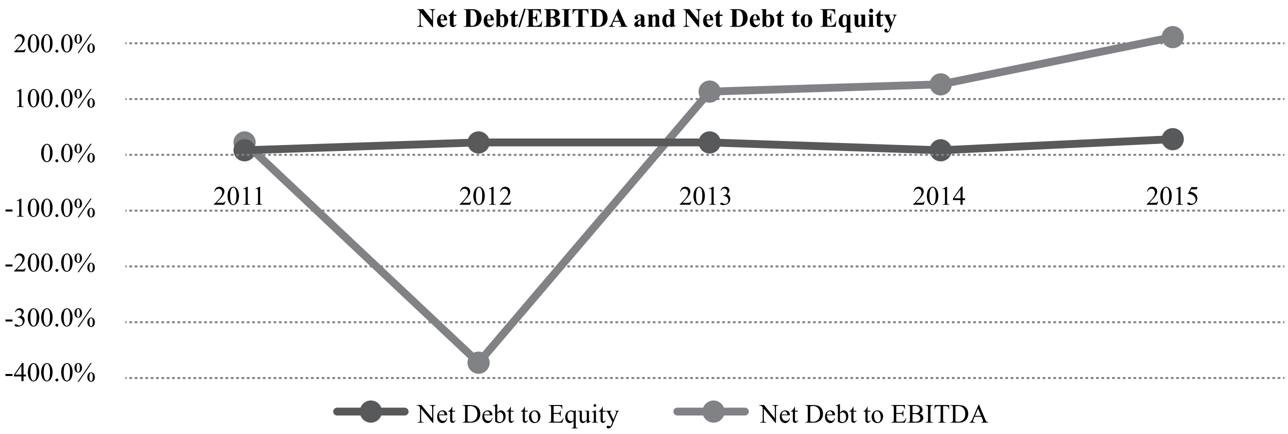
Administrative and selling expenses stood at 938 million and 144 million in 2015 respectively. The administrative and selling expenses were 39% and 6% of sales respectively in 2015. Rental charges and staff costs account for the largest portion of administrative expenses.

Shareholders' Funds



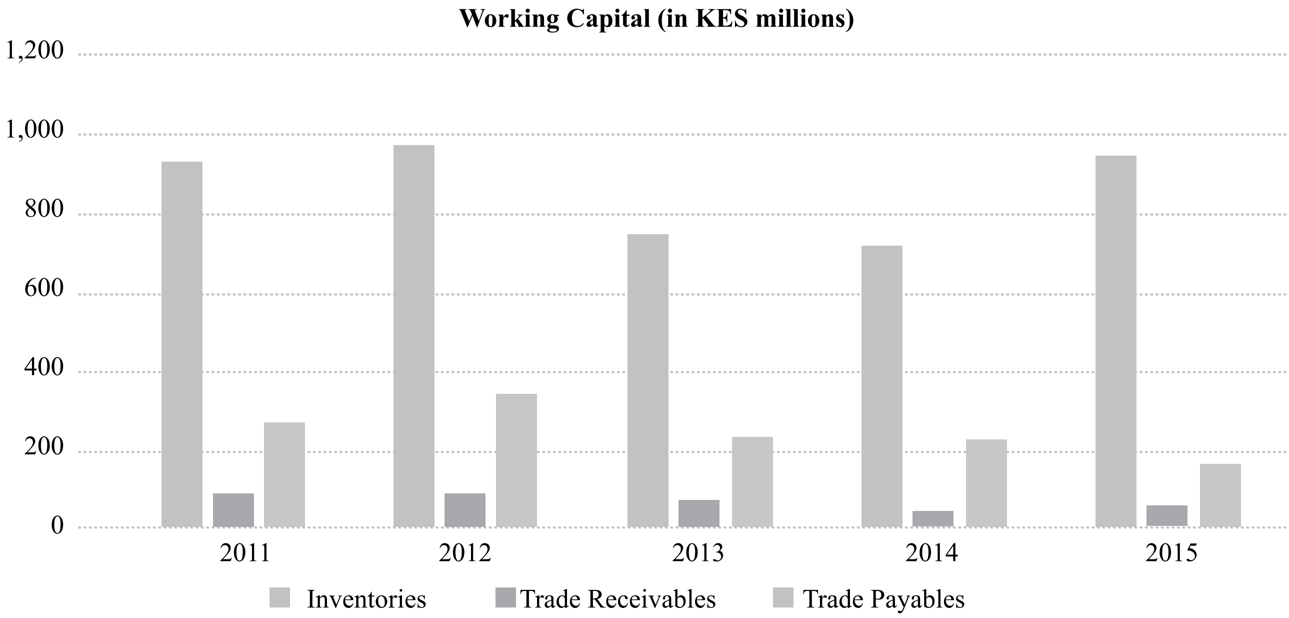
11 OPERATING AND FINANCIAL HIGHLIGHTS

Capital structure



Deacons had a slight increase in net debt to EBITDA and net debt to equity in 2015. Its net debt to equity has remained relatively stable over the last five years.

Working Capital



The Company has had fairly constant working capital level, but with a slight increase in inventory in 2015 mainly driven by opening of new stores. This also had an impact on the cash generated from operations in 2015.

Trading Position

There has not been any significant change in the financial or trading position of the Group since the 31st December 2015.

12 INTERIM FINANCIAL RESULTS

Deacons' net revenue grew 13.2% in the first quarter of 2016 to KES 472 million following the opening of 8 stores since the same time last year. Gross margins were good at 53% ahead of 2015 full year margins of 47% and gross profit margins of 35% in the first quarter of 2015. Overall administrative expenses were 17.0% higher than the same period in 2015 largely on account of more stores being opened. The first quarter tend to be slow in terms of profits due to the high fixed costs of the business (rent and staff costs are account for close to 80% of administrative expense) and low demand. Approximately 20% of annual sales tend to be generated during the Christmas peak season when the high demand results in higher profits as costs remain relatively stable.

Below are the interim financial results:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Unaudited	**Unaudited**	
	Mar-16	**Mar-15**	**Dec-15**
	KES'000	**KES'000**	**KES'000**
SALES	471,794	416,416	2,383,297
COST OF SALES	(223,482)	(268,926)	(1,274,514)
GROSS PROFIT	248,312	147,490	1,108,783
	53%	35%	47%
INTEREST INCOME	1,685	12,047	37,664
OTHER INCOME	4,003	16,069	12,222
SHARE OF PROFIT OF ASSOCIATE COMPANY	-	-	53,832
PROFIT ON DISPOSAL OF ASSOCIATE	-	-	64,933
ADMINISTRATION EXPENSES	(256,665)	(219,339)	(938,211)
SELLING EXPENSES	(28,213)	(21,535)	(143,796)
FINANCE COSTS	(26,339)	(11,194)	(79,405)
NET FOREIGN EXCHANGE GAINS	(2,272)	174	25,573
PROFIT BEFORE TAXATION	(59,489)	(76,287)	141,595
TAXATION CHARGE	(611)	-	(27,845)
PROFIT FOR PERIOD	(60,100)	(76,287)	113,750

12 INTERIM FINANCIAL RESULTS

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

	Mar-16	Mar-15	Dec-15
ASSETS	**KES'000**	**KES'000**	**KES'000**
NON CURRENT ASSETS			
FURNITURE, FITTINGS AND EQUIPMENT	636,240	527,290	640,843
INTANGIBLE ASSETS	49,953	8,626	54,425
LEASE PREPAYMENTS	21,539	2,497	22,789
INVESTMENT IN ASSOCIATE	-	119,050	-
TRADE AND OTHER RECEIVABLES	-	-	41,204
DEFERRED TAXATION	**36,087**	**30,090**	**34,402**
	743,819	**687,555**	**793,663**
CURRENT ASSETS			
LOAN TO ASSOCIATE	-	263,357	-
TRADE AND OTHER RECEIVABLES	168,219	208,315	531,780
INVENTORIES	1,011,791	661,727	931,979
TAXATION RECOVERABLE	31,983	37,424	32,234
BANK AND CASH BALANCES	95,927	(114,809)	196,416
	1,307,920	**1,056,013**	**1,692,409**
TOTAL ASSETS	**2,051,739**	**1,743,567**	**2,486,072**
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
SHARE CAPITAL	308,896	308,896	308,896
SHARE PREMIUM	548,804	548,804	548,803
RETAINED EARNINGS	614,809	484,872	674,909
TRANSLATION RESERVE	(28,190)	(16,235)	(20,314)
SHAREHOLDER'S FUNDS	**1,444,318**	**1,326,336**	**1,512,294**
NON CURRENT LIABILITIES			
BORROWINGS	271,992	117,297	390,632
CURRENT LIABILITIES			
TRADE AND OTHER PAYABLES	290,908	229,862	318,999
BORROWINGS	44,522	70,073	264,147
	335,430	**299,935**	**583,146**
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES	**2,051,740**	**1,743,567**	**2,486,072**

12 INTERIM FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF CASH FLOWS

	Mar-16
	KES'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash (used in)/generated from operations	(60,100)
Depreciation and Amortization	29,686
Unrealised Exchange Gain	6,420
Decrease (increase) in Inventories	(79,812)
Decrease (increase) in Payables	(28,091)
Decrease (increase) in Receivables	404,765
Taxation paid	(1,433)
Net cash (used in)/generated from operating activities	271,435
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of furniture, fittings and equipment	(4,603)
Additions to lease prepayments	(5,722)
Net cash generated from/(used in) investing activities	(10,325)
CASH FLOWS FROM FINANCING ACTIVITIES	
Loan received	
Repayment of loan	(338,265)
Interest on borrowings	(26,339)
Net cash generated from/(used in) financing activities	(364,604)
INCREASE/(DECREASE) IN CASH AND CASH	
EQUIVALENT CASH AND CASH EQUIVALENTS	(103,494)
AS AT 1 JANUARY	**196,416**
Effect of exchange rates	3,006
CASH AND CASH EQUIVALENTS	
AS AT 31 MARCH	**95,927**

13 DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

13.1 Board of Directors

Below is a brief profile of the directors of the Company:-

Peter Gichuru Njoka: Kenyan, Age 46- Independent Non-Executive Chairman

Peter is a private equity specialist, formerly with the Abraaj Group. He has 19 years' private equity and corporate finance experience in East Africa. Since 1999, he has been responsible for recommending investments, monitoring and working on exits for a number of companies, across various sectors. He is a board member of Kenya Investment Authority, Kenya Clay Products Ltd. and Timsales Holdings, amongst other companies. Prior to 1999, Peter was responsible for preparing corporate and industry research reports, as well as valuation and forecast models at an advisory company in Nairobi for a period of 2 years. He holds a B.Sc. in Mathematics and Physics from the University of Nairobi.

Muchiri Wahome: Kenyan, Age 53 - Chief Executive Officer

Muchiri has over 28 years of retail experience. He is a Non-Executive Director of Scangroup Limited, Tea Brokers East Africa Limited, Goodlife Pharmacies and East African Packaging Limited. He is also the Chairman of the Board of Governors of Othaya Girls High School. Muchiri is a holder of a BA (Economics) from the University of Nairobi, a Higher National Diploma in Management from Strathmore University, a fellow of the Aspen Leadership Center and was awarded the Head of State Commendation medal (HSC) for implementing performance contracts in government bodies.

Diana Bird: British, Age 59 - Independent Non-Executive Director

Diana is the immediate former Managing Director of Deacons, having served in that capacity from 1986 to 2003. Prior to this she worked with the renowned Marks & Spencer chain of stores and has a wealth of experience in sourcing, buying and marketing for apparel retail across the world. She now divides her time between Devon in the UK and Nairobi in Kenya.

James Israel Olubayi: Kenyan Age 50 - Independent Non-Executive Director

James is currently the Executive Director of the Alexander Forbes Group in Kenya. He studied actuarial science at the City University, Cass Business School, in London where he graduated in 1989 with a First Class Honors degree. He joined Hymans Robertson Consulting Actuaries in London in 1989 and qualified as a Fellow of the Institute of Actuaries ('FIA') in 1994. He gained several years' experience in international actuarial consulting in the United Kingdom before establishing the Hymans Robertson Consulting Actuaries Kenya operation in May 1994. Hymans Robertson in Kenya later changed its name to Alexander Forbes Kenya when Hymans Robertson UK sold out to Alexander Forbes of South Africa.

James currently is appointed as an Actuary to many Pension Schemes in East and Central Africa. He is also appointed Actuary to several insurance companies in the region. His work involves extensive client contact and travelling. He is also a Board Member of UBA Kenya Bank Limited. He is also the Liaison Officer of the Institute and Faculty of Actuaries in East Africa and the current President of The Actuarial Society of Kenya (TASK).

Betty Muthoni Mwangi: Kenyan, Age 47 - Independent Non-Executive Director

Betty is the immediate former Director of Financial Services at Safaricom Limited which is the division that oversees Mpesa, the globally acclaimed Mobile Money Service, a role she has held for almost a decade since the launch of Mpesa. She holds a B. Eng. (Hons) in Electrical and Electronic Engineering from the Victoria University of Manchester and an MBA from the University of Leicester - both in the UK. She is also a Chartered Marketer and a member of the Chartered Institute of Marketing.

13 DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

Kamami Christine Michira Mweti: Kenyan, Age 44 - Independent Non-Executive Director

Christine is a Partner and the Head of the Banking and Finance Practice Group at Coulson Harney one of Kenya's leading corporate commercial law firms. She has spent most of her professional career in the capital markets, having served as the head of the legal and compliance functions of the Nairobi Securities Exchange Limited (where she also served in the Finance, Strategy & Business Development Committee), the Capital Markets Authority, Renaissance Capital (Kenya) Limited and Equity Investment Bank Limited.

Christine holds a Master's Degree in Business Administration and a Bachelor's Degree in Law both from the University of Nairobi. She was admitted as an advocate of the High Court of Kenya in 1997. She is a member of the Law Society of Kenya and the Institute of Directors (Kenya). She is a Certified Public Secretary (Kenya) and a member of the Institute of Certified Public Secretaries of Kenya. She is certified by the Commonwealth Secretariat, the Centre for Corporate Governance and the Institute of Directors (Kenya) as a trainer in corporate governance. She has also been trained by the International Finance Corporation of the World Bank Group in board evaluation and has been extensively involved in the training of directors in the areas of legal duties, accountability and reporting.

13.2 Directors' Interests

As at the date of this Information Memorandum, the direct and indirect beneficial equity interests of the Directors in Deacons are as follows:-

	DIRECTORS	DIRECT & INDIRECT BENEFICIAL EQUITY INTEREST (NUMBER OF DEACONS SHARES OF KES 2.50 EACH)	SHAREHOLDING PERCENTAGE
1	DIANA BIRD	9,839,656	7.96%
2	BETTY MUTHONI MWANGI (REPRESENTING THE ESTATE OF THE LATE CHARLES MWANGI)	9,340,852	7.56%
3	MUCHIRI WAHOME	4,313,268	3.49%
	TOTAL	**22,908,532**	**18.54%**

Note: Details of changes in Directors direct and indirect beneficial equity interests in the Group, during the three years preceding the date of this Information Memorandum is set out in section 14 (Statutory and General Information) of this Information Memorandum

13.3 Transactions with Directors

Save as disclosed in this Information Memorandum-

(i) No payment has been made or has been agreed to be made to any Director or to any company in which (s)he is beneficially interested, directly or indirectly, or which (s)he is a director, or to any partnership, syndicate or other association of which s(he) is a member, in cash or securities or otherwise, by any person to induce him to become or to qualify him as a Director, or otherwise for services rendered by him or by the Company, partnership, syndicate or any other association during the three years preceding the date of this Information Memorandum.

(ii) No Director is or has been involved in any transactions which are or were significant in relation to the business of Deacons and its subsidiaries and which were effected during the Listing or three years preceding the date of this Information Memorandum, and which remain in any respect outstanding or unperformed.

13 DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

(iii) There are no outstanding loans granted by the Company and its subsidiaries nor has the Company and its subsidiaries issued guarantees in favour of the Directors.

13.4 Executive Directors' contracts

Only the Chief Executive Officer (CEO) has an employment contract. The Company has appointed Muchiri Wahome as CEO of the Company with effect from 1 August 2003. The contract is for an indefinite term. The CEO is to report directly to the Board of Directors. The contract may be terminated by either party giving to the other 3 months notice in writing or payment of 3 months salary in lieu of notice. The Company is entitled to terminate the CEO's contract for breach of contract without giving notice.

13.5 Directors' Fees

The following table summarizes all the sums paid to the Directors in the last 5 financial years.

YEAR	DIRECTOR'S EMOLUMENTS (KES 000'S)
2011	20,070
2012	20,917
2013	20,015
2014	20,040
2015	22,198

13.6 Corporate Governance

The Board of Deacons is fully committed to attaining and maintaining the highest standards of corporate governance. This is ensured through the following established practices:

- Independent functioning of the Board
- Clear demarcation of responsibilities of the Board and Management
- Implementation of well-designed internal control and management information system to ensure integrity of data and information
- Maintaining a high level of integrity in dealing with the public
- Monitoring the performance of Senior Management

Board of Directors and Committees of the Board

The Board is governed by a Board Charter, which details the role and responsibilities of the Board and its approach to corporate governance. The Board acts in accordance with all relevant Company policies and laws applicable to the Company and in accordance with the Company's Memorandum & Articles of Association. The current Board comprises of one (1) executive director and five (5) non-executive directors including the Chairman. This has led to independence in outlook and ensures that balanced objective decisions are arrived in regard to operations and strategic issues.

The Board has established the following Board Committees and their terms of reference and composition are approved by the Board and are reviewed regularly.

i) Audit Committee

ii) Strategy and Investment Committee

iii) Remuneration Committee

iv) Information, Communication and Technology Committee

v) Nomination Committee

13 DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

Audit Committee

The Audit Committee meets four times a year and at such other times as circumstances may dictate. Its membership includes James Olubayi (as Chairman) and Peter Njoka. The external auditors and other members of the management team attend meetings as appropriate for part or whole of each meeting.

The Committee's responsibilities include reviewing of financial statements, compliance with accounting standards, oversight on internal control systems, identification, assessment and effectiveness of business risk management processes in liaison with the external auditor. The Committee is also authorized by the Board to investigate any matter within its terms of reference and to seek any information it requires from any Company employee, external legal, accounting or other independent professional advisors as it considers necessary in discharging its responsibilities.

Strategy and Investment Committee

The Strategy and Investment Committee comprises of Diana Bird (as Chairperson), Christine Mweti, Peter Njoka, Betty Mwangi and Muchiri Wahome. The Committee's key responsibility includes oversight on all the Company's strategic initiatives including but not limited to long and mid-term strategic plans, capital structure, funding, expansion plans, brand acquisitions and disposals, brand management and growth of market share. The Committee provides support and guidance in budgeting and execution of projects.

Remuneration Committee

The Remuneration Committee comprises of Christine Mweti (as Chairperson), Diana Bird and Muchiri Wahome. The Committee is responsible for monitoring and appraising the performance of senior management, review human resources policies and determine the remuneration of senior management and making recommendations to the Board on the remuneration of the CEO. The CEO is not present when his remuneration is discussed.

Information, Communication and Technology Committee

The Information, Communication and Technology Committee comprises of Betty Mwangi (as Chairperson), Peter Njoka and Muchiri Wahome. The committee's key responsibility includes oversight on the development and execution of the Company's strategy in support of the overall company strategy. This includes, but is not limited to; reviewing and recommending ICT skill sets required by the business, evaluating and awarding tenders, reviewing emerging trends and assessing business requirements in order to provide cutting edge solutions for the business. The Committee provides support and guidance for budgeting and execution of projects.

Nomination Committee

The Nomination Committee comprises of Peter Njoka (as Chairman), Diana Bird and Muchiri Wahome. The Committee's responsibilities include evaluation of the composition of the Board of the Company and its subsidiaries, the composition of its committees and evaluating the performance of the directors collectively and individually. Recommendations for retirement and appointments of additional and replacement Directors and Committee members are made to the Board. Non-Executive Directors are selected for recommendation on the basis of industry knowledge, professional skills and experience, and where appropriate the Directors believe that significant shareholders in the Company should be represented on the Board of Directors.

13 DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

13.7 Directors of Subsidiaries

Deacons 2002 Limited

Name	Address	Occupation	Nationality
Deacons (East Africa) PLC	P.O. Box 30087- 00100 Nairobi	NA	NA
Peter Gichuru Njoka	P.O. Box 30087- 00100 Nairobi	Director	Kenyan

Nyoya Limited

Name	Address	Occupation	Nationality
Deacons (East Africa) PLC	P.O. Box 30087- 00100 Nairobi	NA	NA
Peter Gichuru Njoka	P.O. Box 30087- 00100 Nairobi	Director	Kenyan

Deacons Mauritius Limited

Name	Address	Occupation	Nationality
Muchiri Wahome	P.O. Box 30087- 00100 Nairobi	Director	Kenyan
Peter Gichuru Njoka	P.O. Box 30087- 00100 Nairobi	Director	Kenyan

Tanzania Fashion Stores Limited

Name	Address	Occupation	Nationality
Muchiri Wahome	P.O. Box 30087- 00100 Nairobi	Director	Kenyan
Peter Gichuru Njoka	P.O. Box 30087- 00100 Nairobi	Director	Kenyan

Deacons Uganda Limited

Name	Address	Occupation	Nationality
Muchiri Wahome	P.O. Box 30087- 00100 Nairobi	Director	Kenyan
Sim Katende	P.O. Box 123 Ntinda Kampala	Director	Ugandan
Peter Gichuru Njoka	P.O. Box 30087- 00100 Nairobi	Director	Kenyan

Deacons Rwanda Limited

Name	Address	Occupation	Nationality
Peter Gichuru Njoka	P.O. Box 30087- 00100 Nairobi	Director	Kenyan
Muchiri Wahome	P.O. Box 30087- 00100 Nairobi	Director	Kenyan
Desire Kamanzi	P.O. Box 6571 Kigali	Director	Rwandese

13 DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

13.8 Management Team

A brief profile of the leadership team of Deacons and its subsidiaries are set out below and unless otherwise stated the business address of these staff is P O Box 30087 Nairobi – 00100.

NAME AND ROLE BRIEF PROFILES

Muchiri Wahome, Age 53, Chief Executive Officer

Muchiri has over 28 years of retail experience. He is a Non-Executive Director of Scangroup Limited, Tea Brokers East Africa Limited, Goodlife Pharmacies and East African Packaging Limited. He is also the Chairman of the Board of Governors of Othaya Girls High School. Muchiri is a holder of a BA (Economics) from the University of Nairobi, a higher national diploma in management from Strathmore University, a fellow of the Aspen Leadership Center and was awarded the Head of State Commendation medal (HSC) for implementing performance contracts in government bodies.

Joseph Sitati, Age 43, Chief Finance & Administration Officer

Joseph has over 15 years' experience in Finance and Business, having started out as an auditor at PricewaterhouseCoopers. He has also worked with Coca-Cola where he served as a Commercial Finance Manager, and he was also the Group Finance and Planning Manager at Old Mutual Group Kenya. Joseph holds a degree in Mechanical Engineering, and is a Chartered Certified Accountant and an affiliate of ISACA (Information Systems Audit and Controls Association). He serves as a Non-executive Director at Kenya Electricity Generating Company (KENGEN)

Jeddidah Thotho, Age 41, Retail Director

Jeddidah has 17 years of retail experience, having begun her career as an Executive development trainee with Sears Holdings Corporation, and Kmart brands in the USA with over 4,000 retail locations. She held various roles in her 12 year career with Sears including Director for Marketing planning. Jeddidah has been with Deacons for 5 years in various roles including Director for Business Development and Director for Marketing. She has a strong retail and financial background having graduated with honors in BBA Corporate Finance from St Mary's University USA (1998).

Andy Mwangi, Age 38, Country Manager Uganda

Andy moved to Uganda after working and growing in the retail arm of Deacons for 8 years. He has all round experience in multiple brands, and the warehouse and has managed the biggest stores in Kenya. Andy has an accounting background and has mentored and trained many staff into entry level management.

Japheth Nzoka, Age 50, Country Manager Rwanda

Japheth worked for 3 years at Hotpoint Appliances Ltd Sarit Center before joining Deacons where he has worked with different brands including Woolworths, 4u2, Mr Price (both Apparel and Home). In his 22 years with the company, he has mentored and trained many sales, cashiers and supervisors some of whom have already been promoted to managers.

David Sang, Age 41, Internal Auditor

David is a Certified Public Accountant with over 16years of experience in Audit, Finance and Administration. He holds a Bachelors of Commerce Finance option and Masters in Business Administration and currently pursuing a PHD in Leadership and Management. He is also a member of ICPAK.

13 DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

Phyllis Ndungu, Age 34, Finance Manager

Phyllis is a Bachelor of Commerce Graduate from Strathmore University and a Certified Public Accountant (CPA-K). She is a member of the Institute of Certified Public Accountants of Kenya. She has over 14 years' experience in Accounting and Finance, having begun her career in Management Accounting at Toyota Kenya Limited.

Olive Waithaka, Age 34, ICT Manager

Olive has 10 years' experience managing information technology projects in various industries. Prior to joining Deacons Group Olive worked with Akili Africa specializing on the Navision system. Olive is currently pursuing a MBA degree.

Olive Gathinji, Age 37, Marketing Manager

Olive is a career Marketer having worked in various capacities across a range of organizations including a leading multinational household name and a Kenyan beverages company. She holds a Bachelor of Science degree in International Business Administration (Marketing) from United States International University and a Post Graduate Diploma from the CIM (UK).

John Mauncho, Age 41, Logistics Manager

John has over 13 years of Supply Chain experience, having begun with DHL Supply Chain where he worked in various capacities. John is accredited by the Chartered institute of Purchasing & Supply (UK) and is currently pursuing a Bachelor's degree the University of Nairobi.

Judith Masinde, Age 50, Human Resource Manager

Judith is a graduate of the University of Nairobi in Commerce and Masters in Business Administration. She has been in Human Resource Management since the start of her career in 1989 and has worked in Public, NGO and International Organizations In Kenya.

Anthony Boreh, Age 33, Brand Manager - Bossini and Adidas

Anthony serves as the Brand Manager Adidas and Bossini brands. He joined Deacons under the Management traineeship program in 2010, He is a Bachelor of Commerce graduate from Kabarak University. Anthony has managed the largest store in Kenya and was part of the management team that opened the first store in Kigali.

Kizito Mutie, Age 40, Brand Manager - Mr Price

Kizito has 15 years of experience in Deacons, having begun as a Management trainee following his graduation from University. He has managed the largest store in Kenya and grown several staff members, including Country Managers. Kizito holds a Master's in Business Administration from the University of Nairobi.

13 DIRECTORS, MANAGEMENT AND CORPORATE GOVERNANCE

13.9 Company Secretary

John L G Maonga

Mr Maonga is a qualified and registered Certified Public Secretary (Kenya) and a holder of Bachelor of Arts Degree, Second Class Honors from the University of Nairobi. He is a Practicing and Fellow Member of the Institute of Certified Public Secretaries of Kenya. He is trained and certified in Corporate Governance and he is also a member of the Institute of Directors, Kenya. He is well versed with corporate laws and statutory regulations in Kenya and has close to 30 years' experience in Company Secretarial, Share Registration and Corporate Trustee Services. He was appointed the Company Secretary of Deacons on 4 July 2012.

13.10 Changes in Director and Senior Management

The Company does not expect any changes in its directors or other senior management in the 12 months following the Listing, other than to meet the new CMA Corporate Governance guidelines.

13.11 Labour relations

Deacons is a party to a Collective Bargaining Agreement (CBA) with the Kenya Commercial Allied Trade Workers Union through the Federation of Kenya Employers and The Distributive and Allied Trades Association. The current CBA has been in place since 1 December, 2014 will run for a period of two years. It covers all shop floor sales assistants, cashiers and warehouse clerks. The shop floor Supervisors and Managers are not included in this membership. There has not been a labor dispute reported in the last 58 years of this relationship. The management is cognizant that the Collective Bargaining Agreement is due for renewal on 30 November 2016. There are no union agreements in Uganda and Rwanda.

13.12 Corporate Social Responsibility

Deacons has adopted a relevant and sustainable CSR Policy that would entrench best practise and improve impact on targeted beneficiaries. This policy is based on the following overall objectives:

(i) To be a responsible corporate citizen in the markets we are present and involved in, and improve the quality of life for the society we engage with.

(ii) To build on corporate brand equity by being responsible.

(iii) To ensure commitment from all Deacons stakeholders to appreciate their unique positions in life and in return make it both a personal and corporate obligation to be involved in the development of the communities that they are a part of.

(iv) To assist the textile industry in Kenya and provide avenues for growth and exposure to budding talent.

To this end, the Company identified four key pillars on which its activities are based on are:

(i) Health

(ii) Education

(iii) Environment

(iv) Community Outreach

14 STATUTORY AND GENERAL INFORMATION

14.1 Incorporation Details and History of the Company

The Company was incorporated as Deacons Kenya Limited on 20th March 1973 under Company Number C. 11537. By a special resolution passed by the shareholders of the Company on 26th October 2010 the Company was converted from private company limited by shares to a public company limited by shares and was issued with a registration number C 18/2010.

The Company changed its name to Deacons (East Africa) PLC on 10th May 2016.

The Company has an authorized share capital of KES 309,000,000/= divided into 123,600,000 ordinary shares of KES 2.50 each. The issued share capital of the Company is KES 308,895,570 divided into 123,558,228 ordinary shares of KES 2.50 each. The balance of KES 104,430 comprising 41,772 ordinary shares remains unissued.

14.2 Alterations to the authorised share capital of the Company in the two years immediately preceding the date of this Information Memorandum

By a resolution dated on 26 October, 2010, the authorised share capital of the Company was increased from KES 140,000,000/= divided into 28,000,000 ordinary shares of KES 5/= each to KES 162,500,000/= divided into 32,500,000 ordinary shares of KES 5/= each by the creation of 4,500,000 ordinary shares of KES 5/= each to rank in pari passu in all respects with all the existing ordinary shares of the Company.

By the same resolution, the Company resolved to offer 12,800,000 ordinary shares in the capital of the Company to Shareholders and to the public in accordance with such allocation policy as the Directors would adopt and subject to the approval of the CMA.

At the Annual General Meeting held on 28th June 2012, the shareholders of the Company resolved to:

(a) Increase the authorised share capital of the Company from Kenya Shillings One Hundred and Sixty Two Million Five Hundred Thousand (KES 162,500,000/=) divided into Thirty Two Million Five Hundred Thousand (32,500,000) ordinary shares of Kenya Shillings Five (KES 5/=) each; to Kenya Shillings Three Hundred and Nine Million (KES 309,000,000/=) divided into Sixty One Million Eight Hundred Thousand (61,800,000) ordinary shares of Kenya Shillings Five (KES 5/=) each; by the creation of Twenty Nine Million Three Hundred Thousand (29,300,000) new ordinary shares of Kenya Shillings Five (KES 5/=) each to rank pari passu in all respects with the existing ordinary shares of the Company.

(b) To capitalise the sum of Kenya Shillings One Hundred and Fifty Four Million, Four Hundred and Forty Seven Thousand, Seven Hundred and Eighty Five (KES 154,447,785/=) being part of the amount standing to the credit of the share premium account of the Company and to authorise the Directors to appropriate such sum to the holders of ordinary shares of Kenya Shillings Five (KES 5/=), in proportion to the number of ordinary shares of Kenya Shillings Five (KES 5/=) each held by the Shareholders respectively on 15 June 2012 and to apply such sum on behalf of such holders in paying up in full at par Thirty Million, Eight Hundred and Eighty Nine Thousand, Five Hundred and Fifty Seven (30,889,557) of the unissued shares of Kenya Shillings Five (KES 5/=) in the capital of the Company, such shares to be allotted, distributed and credited as fully paid up to and amongst such holders in the proportion of one (1) new ordinary share for every one (1) ordinary share of Kenya Shillings Five (KES 5/=) then held on 15 June 2012, and that such new ordinary shares of Kenya Shillings Five (KES 5/=) each shall rank for all purposes pari passu with the existing issued ordinary shares of Kenya Shillings Five (KES 5/=) = each of the Company.

(c) To sub-divide each of the ordinary shares of Kenya Shillings Five (KES 5/=) in the present capital of the Company, both issued and unissued, into two (2) ordinary shares of Kenya Shillings Two and Fifty Cents (KES 2.50) each effective on 15 June 2012.

At the same meeting, the Shareholders agreed to list the Shares on the NSE.

14.3 The names of Shareholders and their respective holdings in excess of 3% of the issued and allotted share capital of the Company as at the date of this Information Memorandum are as follows:

	HOLDER NAMES	SHARES	%
1	SWEDFUND INTERNATIONAL AB	17,330,656	14.03%
2	PINPOINT INVESTMENTS LIMITED	10,784,280	8.73%
3	DIANA BIRD	9,839,656	7.96%
4	CHARLES MWANGI GATHURI	9,340,852	7.56%
5	KIRIMARA LIMITED	8,031,332	6.50%
6	TRI-KAY DEVELOPMENT CO. LTD.	6,869,092	5.56%
7	AUREOS EAST AFRICA FUND LLC	6,837,548	5.53%
8	A/C PEREGRINE EQUITY LLC KESTREL CAPITAL NOMINEES LIMITED	5,120,000	4.14%
9	MUCHIRI WAHOME	4,313,268	3.49%
10	OLD MUTUAL LIFE ASSURANCE CO. LTD.	3,733,332	3.02%

There has been no significant change in percentage ownership held by any major shareholders or the trading objectives of the Group during the past three financial years apart from an additional 585,244 shares issued to Muchiri Wahome as a result of the dissolution of the Deacons Employee Shares Save Scheme.
None of these shareholders have different voting rights from any other shareholder of the Company.

14.4 The details of anticipated change in the controlling Shareholders as a result of the Listing:

There will be no change in the amount of any Shareholders shareholding in the Company as a result of the Listing.

14.5 Subsidiaries

Deacons is both an operating and holding company for its Subsidiaries. The table below sets out the details of the subsidiaries under the Group:

	Name	Country of Incorporation	Beneficial Ownership	Activity
1.	Nyoya Limited	Kenya	100%	Not Trading
2.	Deacons 2002 Limited	Kenya	100%	Not Trading
3.	Deacons Mauritius Limited	Mauritius	100%	Holding Company
4.	Tanzania Fashion Stores Limited	Tanzania	100%	Trading
5.	Deacons Uganda Limited	Uganda	100%	Trading
6.	Deacons Rwanda Limited	Rwanda	100%	Trading

14.6 Registered Office of the Company

The registered office of the Company and its principle place of business is situated at Norfolk Towers II, Block G, 1st Floor, Kijabe Street and its postal address is Post Office Box Number 30087 – 00100 Nairobi.

14.7 Extract from Memorandum of Association

14.7.1 Deacons' principal objects as set out in the following sub-sections of clause 3 of its Memorandum of Association are:

1) To operate retail establishments including franchise stores, department stores, discount department stores, chain stores, general merchandise stores, warehouse stores, variety stores, general stores, convenience stores, big-box stores, destination stores and to offer a wide range of consumers' personal and residential durable goods, product needs, and a choice of multiple merchandise lines, at variable price points, in all product categories including apparel, furniture, home appliances, electronics, paint, hardware, toiletries, cosmetics, photographic equipment, jewelry, toys, and sporting goods.

2) To buy, sell, manufacture, import, export, distribute and deal in all kinds of exercise equipment, gym equipment, fitness equipment, training equipment, gym kit, and to provide all such ancillary facilities and services including gym design, operation, service, maintenance and training as the Company may deem necessary for the purpose of the aforesaid business.

3) To carry on the business of operators of food and drink sale outlets, cafes, snack bars, burger bars and coffee shops and in particular those eating establishments known as "fast food" outlets and the sale of all types of foodstuffs and drinks both alcoholic and non-alcoholic.

4) To carry on business as proprietors of restaurants, refreshment and tea rooms, wine bar, eating houses, fast food outlets, cafes, snack bars and coffee shops and bars.

5) To buy sell manufacture import and export and deal in all kinds of wares merchandise, substances, articles and things capable of being used in any such business as aforesaid and deemed requisite for the purposes of the business of the Company.

6) To offer and provide its customers with all kinds of promotional products, items, merchandise and facilities including loyalty card schemes, gifts and discounts and to offer online shopping facilities.

7) To enter into arrangements with companies, firms and persons for promoting the manufacture, sale and purchase and maintenance of goods, articles or commodities of every kind, either by buying, selling and letting on hire, hire purchase, credit sale systems or by financing or assisting such other companies, firms or persons to do all or any of the last-mentioned transactions and to enter into joint ventures with companies to provide credit, debit or store cards to customers.

8) To enter into franchise agreements and such other agreements or arrangements as the Company may deem necessary for the proper conduct of its business.

14.8 Extracts from Articles of Association

The following paragraphs are key extracts from the Company's Articles of Association:

14.8.1 Share Capital

9) The share capital of the Company is Kenya Shillings Three Hundred and Nine Million (KES 309,000,000/=) divided into One Hundred and Twenty Three Million Six Hundred Thousand (123,600,000) ordinary shares of Kenya Shillings Two and Fifty Cents (KES 2.50) each.

14.8.2 Shares

10) Except as required by law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any interest in any fractional part of a share or (except only as by these Articles or by law otherwise provided) any other rights in respect of any shares except an absolute right to the entirety thereof in the registered holder.

11) Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine.

12) The Company may by special resolution create and sanction the issue of Preference shares which are, or at the option of the Company are to be, liable to be redeemed, subject to and in accordance with the provisions of Section 60 of the Act. The special resolution sanctioning any such issue shall also specify by way of an addition to these Articles the terms in which and the manner in which any such Preference shares shall be redeemed.

13) If, at any time, the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of a special resolution passed after a separate general meeting of the holders of the shares of the class. To every such separate general meeting the provisions of these Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum shall be Two persons at least holding or representing by proxy one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy, or in the case of a corporation by a representative appointed in accordance with Article 88 may demand a poll.

14) The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

15) a) Unless otherwise authorised by the Members by way of an ordinary resolution in a General Meeting whenever the Directors propose to issue any Shares which have not been allotted they shall be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of the same in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which, by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares, cannot, in the opinion of the Directors, be conveniently offered under this Article PROVIDED THAT this regulation shall not apply to the issue of unallotted shares by the Company for the purposes of acquisition of another company's shares or business for which the Directors shall have the general authority to issue unallotted shares for that purpose, except where such issue of shares would result in a shareholder (as a result of being issue shares for the acquisition) gaining control of the Company in which case such issue will require the approval by the Members by way of a special resolution of a general meeting.

b) Members shall only be entitled to receive, pursuant to the foregoing provision, shares of the same class as the class of shares then held by them immediately before such offer

14.8.3 Immobilization of Shares

16) Pursuant to and subject to the Central Depositories Act 2000, title to immobilized and dematerialized shares will be evidenced otherwise than by a certificate and title to such shares shall be transferred by means of a book-entry transfer in accordance with the provisions of the Central Depositories Act 2000.

17) No provision of these Articles shall apply or have effect in relation to any shares which have been immobilized or dematerialized under the Central Depositories Act 2000 to the extent that it is inconsistent in any respect with:

i. the holding of such shares in uncertified form;

ii. the transfer of title to such shares by means of a book-entry transfer; and

iii. any provision of the Central Depositories Act 2000

18) Transfers of Securities which have been immobilized or dematerialized under the Central Depositories Act 2000 shall be effected in the manner prescribed thereunder.

19) Where the Company refuses to register transfers of Securities required to be registered under Section 14 and 15 of the Central Depositories Act 2000, it shall serve the transferor and transferee with written notice of the reasons for such refusal in accordance with Section 14(5) of the Central Depositories Act 2000.

20) An instrument of transfer lodged with the Company pursuant to Section 14(1) of the Central Depositories Act 2000 shall be capable of registration in the name of a central depository or its nominee company if such instrument has been certified by a central depository agent instead of being executed by the central depository or its nominee Company.

21) With effect from the Dematerialization Date, any reference to a transfer of share or debentures shall be a reference to a book entry transfer performed by the central depository in accordance with Section 27(1) (b) of the Central Depositories Act 2000.

22) Any provisions in the Articles inconsistent with the requirements of the Central Depositories Act 2000 or as prescribed by the Authority under Regulations in respect of registration, transfer, immobilization or dematerialization of securities shall be deemed to be modified to the extent of such inconsistency in their application to securities which are in part or in whole immobilized or dematerialized or are required by the Central Depository Act 2000 or Regulations and Rules issued thereunder to be immobilized or dematerialized in part or whole as the case may be.

14.8.4 Alteration of Capital

23) The Company may, from time to time by ordinary resolution, increase the share capital by such sum to be divided into shares of such amount, as the resolution shall direct, or, in default of such direction, as the Directors shall determine.

24) Subject to any direction or authority to the contrary that may be given by the resolution sanctioning the increase of capital or by any other ordinary resolution of the Company, all new shares shall, before issue, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of the same in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which, by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares, cannot, in the opinion of the Directors, be conveniently offered under this Article.

Notwithstanding the foregoing, the provisions of this regulation shall not apply to the issue of unallotted shares by the Company for the purposes of acquisition of another company's shares or business for which the Directors shall have the general authority to issue unallotted shares for that purpose, except where such issue of shares would result in a shareholder (as a result of being issue shares for the acquisition) gaining control of the Company in which case such issue will require the approval by the Members by way of a special resolution of a general meeting.

25) Any new shares may be offered at par, at a premium or (subject to the provisions of the Act) at a discount as the Directors may decide.

26) The new shares shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, and forfeiture and otherwise as the shares in the original share capital.

27) The Company may, by ordinary resolution:

i. Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

ii. Sub-divide its existing shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association subject, nevertheless, to the provisions of the Act;

iii. Cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any persons;

The Company may, by special resolution:

iv. Reduce its share capital, any capital redemption reserve fund and any share premium account in any manner and with, and subject to, any incident authorised and consent required, by law.

14.8.5 General Meetings

28) The Company shall in each Year hold a general meeting as its Annual General Meeting in addition to any other meetings in that year, and shall specify the meeting as such in the notices calling it. Not more than Fifteen months shall elapse between the date of one Annual General Meeting of the Company and that of the next. Annual and Extraordinary General Meetings shall be held at such times and places within Kenya as the Directors shall, from time to time, appoint.

29) All general meetings other than Annual General Meetings shall be called Extraordinary General Meetings.

30) The Directors may, whenever they think fit, convene an Extraordinary General Meeting, and extraordinary general meetings shall also be convened on such requisition, or, in default, may be convened by such requisitionists, as provided for in Section 132 of the Act. If at any time there are not within Kenya sufficient Directors capable of acting to form a quorum, any Director or any ten members of the Company may convene an Extraordinary General Meeting in the same manner as nearly as possible as that in which meetings may be convened by the Directors.

14.8.6 Notice of General Meetings

31) Every general meeting shall be called by Twenty-one days' notice in writing at the least. The notice shall be exclusive of the day on which it is served or deemed to be served and on the day for which it is given, and shall specify the place, the day and the hour of meeting and, in case of special business, the general nature of that business, and shall be given, in a manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the Company in a general meeting, to such persons as are, under the regulations of the Company, entitled to receive such notices from the Company.

Provided that a meeting of the Company shall, notwithstanding that it is called by shorter notice than that specified in this Article be deemed to have been duly called if it is so agreed:

i. in the case of a meeting called as the Annual General Meeting, by all members entitled to attend and vote thereat and otherwise in accordance with the provisions of Section 133(3) of the Act; and

ii. in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than Ninety-five per cent (95%) in nominal value of the shares giving that right.

Provided always that if the Company shall then be listed on any Securities Exchange, a copy of such notice shall be sent to such Securities Exchange at the same time notices are also sent to the shareholders.

32) In every notice calling a meeting of the Company, there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his or her stead and that a proxy need not be a member.

33) The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

14.8.7 Proceedings at General Meetings

34) All business shall be deemed special that is transacted at an Extraordinary General Meeting, and also all business that is transacted at an Annual General Meeting shall be deemed special, with the exception of declaring and sanctioning of dividends, the consideration of the accounts, balance sheet and the reports of the Directors and Auditors, the election of Directors in the place of those retiring (if any), and the appointment and the fixing of the remuneration of the Auditors.

35) No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business; save as herein otherwise provided. Three members present in person or by proxy or represented in accordance with Article 88, together holding in aggregate not less than 40 % of the issued share capital of the Company shall form a quorum. Provided that one Member holding the proxies of two or more Members shall not constitute a quorum.

36) If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week, at the same time and place or to such other day and at such other time and place as the Directors may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the meeting shall be dissolved.

37) The Chairman, if any, or in his absence, the Deputy Chairman, if any of the Board of Directors shall preside at every general meeting of the Company.

38) If there is no Chairman (or Deputy-Chairman) or if at any meeting neither is present within Fifteen minutes after the time appointed for holding the meeting, or is unwilling to act as a Chairman, the Directors present shall choose someone of their number to be Chairman. If no Director is willing to act as Chairman or no Director is present within Fifteen minutes after the time appointed for holding the meeting, the members present shall choose one of their numbers to be Chairman of the meeting.

39) The Chairman may, with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for Thirty days or more, notice of the adjourned meeting shall be given as in the same manner as in the case of an original meeting. Save as aforesaid, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

40) At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

  i. The chairman of the Meeting or,

  ii. By any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting.

  Unless a poll is so demanded, a declaration by the chairman of the Meeting that a resolution has, on a show of hands, been carried or carried unanimously or by a particular majority or lost or not carried by a particular majority and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

  The demand for a poll may be withdrawn at any time.

41) If a poll is duly demanded it shall be taken in such manner as the Chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

42) In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote.

43) A poll demanded on the election of a Chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time and place as the Chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll.

14.8.8 Votes of Members

44) Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every member present in person shall have one vote, and on a poll every member present in person or by proxy or being a corporation, by a representative appointed in accordance with Article 88, shall have one vote for each share of which he is the holder.

45) In the case of joint shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the Register.

46) A member incapable by reason of mental disorder of managing and administering his property and affairs may vote, whether on a show of hands or on a poll, through his receiver, or other person authorised by any Court of competent jurisdiction to act on his behalf, and such person may on a poll vote by proxy.

47) No Member shall be entitled to be present at any General Meeting or to vote on any question, either personally or by proxy or by a representative appointed in accordance with Article 88, at any General Meeting or on a poll or to be reckoned in a quorum whilst any call or other sum shall be due and payable to the Company in respect of any of the Shares held by him, whether alone or jointly with any other person.

48) No objection shall be raised to the qualification of any vote except at the meeting or adjourned meeting at which the vote objected to is given or tendered. Every vote not disallowed at such meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman of the meeting, whose decision shall be final and conclusive.

49) On a poll, votes may be given either personally or by proxy or by attorney or by a representative of a corporation appointed in accordance with Article 88.

50) The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing, or, if the appointer is a Corporation, either under seal, or under the hand of an officer or attorney duly authorised. A proxy need not be a member of the Company.

51) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Office or at such other place within Kenya as is specified for that purpose in the notice convening the meeting, not less than Forty-eight hours before the time for holding the meeting or adjourned meeting, at which the person named in the instrument proposes to vote, or, in the case of a poll, not less than Twenty-four hours before the time appointed for the taking of the poll, and in default the instrument of proxy shall not be treated as valid.

14.8.9 Directors

52) Unless and until otherwise from time to time determined by an ordinary resolution of the Company, the number of Directors (excluding alternates) shall not be less than Three (3) nor more than Nine (9) in number. If at any time the number of Directors falls below the minimum number fixed by or in accordance with these Articles, the remaining Directors may act for the purpose of convening a general meeting or for the purpose of bringing the number of Directors to such minimum, and for no other purpose.

53) At the first Annual General Meeting of the Company following the adoption of these Articles and at the Annual General Meeting in every subsequent year, one third of the Directors other than the Managing Director and any other Director being at the time in the employment of the Company or any of its Subsidiaries for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding one third shall retire from office. The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became directors on the same day, those to retire shall (unless otherwise agreed amongst themselves) be determined by lot.

54) Notwithstanding the provision of Article 91 above any Director who retires from office shall be eligible for re-election.

55) No person, other than a Director retiring at a meeting, shall be eligible for appointment as a Director at any General Meeting, unless not less than seven nor more than twenty one days before the day appointed for the meeting, there shall have been delivered to the Secretary of the Company notice in writing signed by the Shareholder, duly qualified to attend and vote at the meeting for which the notice has been given, of his intention to propose such person for election and notice in writing, signed by the person to be proposed of his willingness to be elected.

56) The Directors shall cause to be kept a Register of the Directors' holdings of shares and debentures of the Company and of its subsidiaries or holding Company (if any) required by the Act, and shall cause the same to be available for inspection during the period and by the persons prescribed, and shall produce the same at every Annual General Meeting as required by the Act.

57) The Directors shall be paid out of the funds of the Company by way of remuneration for their services such sums as the Company may from time to time by ordinary resolution determine and such remuneration shall be divided among them in such proportion and manner as the Directors may determine and, in default of such determination within a reasonable period, equally. Subject as aforesaid, a Director holding office for part only of a year shall be entitled to a proportionate part of a full year's remuneration. The Directors shall also be entitled to be repaid by the Company all such reasonable travelling (including hotel and incidental) expenses as they may incur in attending meetings of the Board, or of committees of the Board, or general meeting, or which they may otherwise properly incur in or about the business of the Company.

58) Any Director who by request performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Directors may determine.

59) Directors shall not be required to hold any share qualification but shall be entitled to receive notice of and to attend and speak at all General Meetings of the Company or at any separate meeting of the holders of any class of Shares of the Company.

14.8.10 Powers and duties of directors

60) The business of the Company shall be managed by the Directors who may pay all expenses incurred in promoting the Company, and may exercise all such powers of the Company as are not, by the Act or by these Articles, required to be exercised by the Company in a general meeting. The exercise of the said powers shall be subject also to the control and regulation of any general meeting of the Company, but no resolution of the Company in a general meeting shall invalidate any prior act of the Directors which would have been valid if such resolution had not been passed.

61) The Directors may from time to time appoint one or more of their body to the office of Managing Director or Manager or other Chief Executive Officer for such period and on such terms and with such powers, and at such remuneration (whether by way of salary, or commission, or participation in profits, or partly in one way, and partly in another), as they may think fit. Subject to the terms of any agreement entered into in any particular case, the Directors may however, revoke any such appointment. Without prejudice to any right to treat such determination

as a breach of any such agreement as aforesaid, the appointment of such a Director to office as aforesaid shall be subject to determination ipso facto if he ceases from any cause to be a Director, or if the Company in a general meeting resolves that his tenure of the office of Managing Director or Manager be determined.

62) The Directors may exercise all the powers of the Company to borrow or raise money and to mortgage or charge its undertaking, property and uncalled capital and to issue debentures, debenture stock, legal and equitable mortgages and charges and other securities whether outright or as security (principal or collateral) for any debt, liability or obligation of the Company or of any third party.

63) The Directors shall duly comply with the provisions of the Act, and in particular with the provisions in regard to the registration of the particulars of mortgages and charges affecting the property of the Company, or created by it, and to keeping a register of the Directors and Secretaries, and to sending to the Registrar of Companies a list of members annually, and a summary of particulars relating thereto, and notice of any consolidation or increase of share capital, or conversion of shares into stock, and copies of special resolutions, and a copy of the register of Directors and notification of any change therein.

64) The Directors may from time to time and at any time by power of attorney appoint any company, firm or person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit and also authorise any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

65) The Company may exercise the powers conferred by the Act with regard to having an official seal for use abroad, and such powers shall be vested in the Directors.

66) a) A Director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the Directors in accordance with section 200 of the Act.

b) A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine. No Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser, or otherwise, or from being interested whether directly or indirectly in any contract or arrangement proposed to be entered into or in fact entered into by or on behalf of the Company; nor shall any such contract or arrangement in which any Director shall be so interested be avoided, nor shall any Director so contracting, or being interested, be liable to account to the Company for any profit realised by him from such contract or arrangement in which he shall be so interested by reason of such Director holding that office or the fiduciary relation thereby established.

c) A Director may vote as a Director in respect of any contract or arrangement in which he is interested (and if he shall do so his vote shall be counted) and he may be counted for the purpose of any resolution regarding the same in the quorum present at the meeting.

d) A Director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under the Company or whereat the terms of any such appointment are arranged and he may vote on any such appointment or arrangement other than his own appointment or the arrangement of the terms thereof.

e) Any Director may act by himself or his firm in a professional capacity for the Company, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director; provided that nothing herein contained shall authorise a Director or his firm to act as Auditor to the Company.

f) A general notice given to the Directors by any Director to the effect that he is a member of any specified Company or firm and is to be regarded as interested in any contract which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made but no such notice shall be of effect unless either it is given at a meeting of the Directors or the Director takes reasonable steps to ensure that it is brought up and read at the next meeting of the Directors after it is given.

67) All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments, and all receipts for moneys paid to the Company, shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such manner as the Directors shall from time to time by resolution determine.

68) The Directors shall cause minutes to be made in books provided for the purpose;

i. Of all appointments of officers made by the Directors;

ii. Of all resolutions and proceedings at all meetings of the Company, and of the Directors, and of committees of Directors.

69) The Directors may grant retirement pensions or annuities or other gratuities or allowances, including allowances on death, to any person or to the widow or dependants of any person in respect of services rendered by him to the Company whether as Managing Director or in any other office or employment under the Company or indirectly as an officer or employee of any subsidiary of the Company, notwithstanding that he may be or may have been a Director of the Company and may make payments towards insurances or trusts for such purposes in respect of such persons and may include rights in respect of such pensions, annuities and allowances in the terms of engagement of any such person.

14.8.11 Proceedings of directors

70) Unless otherwise agreed by the Directors, all meetings of the Board shall take place in Nairobi. Subject to the foregoing, the Directors may meet together for the dispatch of business, adjourn and otherwise regulate their Meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes and the Chairman shall have a second and casting vote in the event of any deadlock. The Secretary, on the instructions of a Director, shall at any time summon a Board meeting. At least seven clear days' notice (excluding of the date of service and the date of meeting) of all Board meetings shall, unless waived by all Directors, be given in the manner hereinafter mentioned to all Directors and Alternates. All such notices shall give reasonable particulars of the matters to be discussed and shall enclose copies of the relevant papers for discussion.

71) The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors, and unless so fixed shall be three Directors present either personally or by Alternate, provided that one person whether a Director or not, although a duly appointed Alternate for any number of Directors, shall not constitute a quorum.

72) The continuing Directors may act notwithstanding any vacancy in their body but, if and so long as their number is reduced below the number fixed by or pursuant to the regulations of the Company as the necessary quorum of Directors, the continuing Directors or Director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose.

73) The Directors may elect a Chairman and Deputy-Chairman for their meetings and determine the period for which they are each to hold office, but if no such Chairman or Deputy-Chairman is elected, or if at any meeting neither the Chairman nor the Deputy-Chairman is present within fifteen minutes after the time appointed for holding the same, the Directors present may choose one of their number to be Chairman of the meeting.

74) The Directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit; any such committee shall conform to any regulation that may be imposed on it by the Directors.

75) A committee may elect a Chairman of its meetings; if no such Chairman is elected, or if at any meeting the Chairman is not present within fifteen minutes after the time appointed for holding the same, the members present may choose one of their numbers to be Chairman of the meeting.

76) A committee may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the members present, and in the case of an equality of votes the Chairman shall have a second and casting vote.

77) All acts done by any meeting of the Directors or of a committee of Directors or by any person acting as a Director shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such Director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a Director.

78) A resolution in writing signed by all of the Directors, or of all the members of a committee, shall be as valid and effectual as if it had been passed at a meeting of the Directors or of the committee (as the case may be) duly convened and held. Such resolution may be contained in one document or in several documents in like form each signed or approved by all the Directors or all the members of the committee concerned.

14.8.12 Dividends and Reserve

79) The Company in a general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors.

80) The Directors may from time to time pay to the members such interim dividends (including therein the fixed dividends payable upon any preference or other shares at stated times) as appear to the Directors to be justified by the profits of the Company.

81) No dividend shall be paid otherwise than out of profits.

82) Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid or certified as paid on the shares. But if and so long as nothing is paid up on any of the shares in the Company, dividends may be declared and paid according to the amounts of the shares. No amount paid or credited as paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this Article as paid on the share. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the share during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms provided that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly.

83) The Directors may, before recommending any dividend, set aside out of the profits of the Company such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose to which the profits of the Company may be properly applied, and pending such application may, at the their discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company) as the Directors may from time to time think fit. The Directors may also without placing the same to reserve carry forward any profits which they may think prudent not to distribute.

84) Notice of any dividend that may have been declared shall be given in a manner hereinafter mentioned to the persons entitled to share therein.

85) The Directors may deduct from any dividend payable to any member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in relation to the shares of the Company.

86) Any general meeting declaring a dividend or bonus may direct payment of such dividend or bonus wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures or debenture stock of any other company or in any one or more of such ways. The Directors shall give effect to such resolution. Where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient, and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees as may seem expedient to the Directors.

87) a) Any dividend or other money payable in cash on or in respect of shares may be paid by electronic funds transfer or any other bank transfer automated system, electronic or mobile money transfer system, transmitted to such bank or electronic or mobile telephone number as shown in the share register of the Company or by cheque or warrant payable at such place of business as the Company shall specify in writing, sent through the post to the address of the member or person entitled to it as shown in the share register of the Company or if two or more persons are registered as joint holders of the shares, to the registered address of the joint holder who is first named in the share register of the Company or in the case of two or more persons being entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such persons at such address as the persons being entitled to receive payment may in writing direct.

b) Every such cheque or warrant or funds transfer shall be made payable to or to the order of the person to whom it is sent or to such person who may be entitled to the same (as described in Article 139 a) aforesaid). Payment of the cheque or warrant, if purporting to be endorsed or enfaced, by the addressee or as the case may be, confirmation of payment having been made by the transmitting entity to the addressee of a direct debit, bank transfer or other automated system of bank transfer or via a mobile money transfer system, shall in each case be a good discharge to the Company. Every such payment whether by cheque or warrant or electronic funds transfer or mobile money payments system shall be sent at the risk of the person entitled to the money represented by it.

88) No dividend shall bear interest against the Company.

89) All dividends, interest or other sum payable and unclaimed for 12 months after having become payable may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. The Company shall not be construed as a trustee in respect thereof. If the shares of the Company are listed on the Nairobi Securities Exchange, all dividends unclaimed for a period of seven (7) years after having been declared or become due for payment shall be forfeited and be paid by the Company to the Investor Compensation Fund in accordance with Section 18(ee) of the Capital Markets Act (Cap 485A) and shall cease to remain owing by the Company.

14.8.13 Capitalisation of Profits

90) The Company in a general meeting may upon the recommendation of the Directors resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the Company's reserve accounts or to the credit of the profit and loss accounts or otherwise available for distribution, and accordingly that such sum be set free for distribution amongst the members who would have been entitled thereto if distributed by way of dividend and in the same proportions on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any shares held by such members respectively or paying up in full unissued shares or debentures of the Company to be allotted and distributed, credited as fully paid up to and amongst such members in the proportion aforesaid, or partly in the one way and partly in the other. The Directors shall give effect to such resolution; provided that a share premium account and a capital redemption reserve fund may, for the purposes of this Article, only be applied in the paying up of unissued shares to be issued to members of the Company as fully paid bonus shares.

91) Whenever such a resolution as aforesaid shall have been passed, the Directors shall make all appropriations and applications of the undivided profits resolved to be capitalised thereby, and all allotments and issues of fully paid shares or debentures, if any, and generally, shall do all acts and things required to give effect thereto, with full power to the Directors to make such provision by the issue of fractional certificates or by payment in cash or otherwise as they think fit for the case of shares or debentures becoming distributable in fractions, and also to authorise any person to enter on behalf of all the members entitled thereto into an agreement with the Company providing for the allotment to them respectively, credited as fully paid up, of any further shares or debentures to which they may be entitled upon such capitalisation, or (as the case may require) for the payment up by the Company on their behalf, by the application thereto of their respective proportions of the profits resolved to be capitalised, of the amounts or any part of the amounts remaining unpaid on their existing shares, and any agreement made under such authority shall be effective and binding on all such members.

14.8.14 Notices

92) A notice and/or document may be served by the Company upon any member either personally or by sending it through the post or by electronic mail or facsimile addressed to such member at his postal address, email address or facsimile number as shall be notified by such member to the Company from time to time Provided that in the case of a notice of an Annual General Meeting, such notice may be given by:

i. publishing a notice containing a summary of both the annual financial statement and auditors' report, in at least two local daily newspapers with national circulation for at least two consecutive days; or

ii. Sending to every member, a notice through the electronic media containing a summary of both the annual financial statement and auditors' report.

93) Any member whose registered address is not within Kenya may by notice in writing require the Company to register an address within Kenya, which, for the purpose of the service of notices, shall be deemed to be his registered address. A member who has no registered address within Kenya, and who has not given notice as aforesaid, shall be entitled to receive notices from the Company at his address outside Kenya.

94) Any notice if sent by post shall be deemed to have been served at the expiration of Seventy-two hours after posting. In proving such service, it shall be sufficient to prove that the envelope containing the notice was properly addressed, stamped, and posted. Notices sent outside Kenya shall be sent by express airmail service. Any notice and/or any document if sent by facsimile, e-mail or post shall be deemed to have been received in the case of facsimile or e-mail twelve (12) hours after the time of dispatch provided (in the case of facsimile) an error free transmission report (or in the case of e-mail) no error message indicating failure has been received by the Company.

95) A notice may be given by the Company to the person entitled to a share in consequence of the death or bankruptcy of a member by sending it through the post, email or by facsimile in a letter addressed to him by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like description, at the postal or email address or facsimile number, of the person claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

96) In this Article, if not consistent with the subject or context, the terms "Local Investor" and "Foreign Investor" shall have the same meaning as that defined in The Capital Markets (Foreign Investors) Regulations 2002 as from time to time amended.

97) For the purposes of enabling the Directors to determine whether or not any share is held by a Foreign Investor the Directors shall maintain a register of Local Investors pursuant to Section 4 (1) of The Capital Markets (Foreign Investors) Regulations 2002 of which register shall be available for inspection by any person as if it were a part of the Register of Members.

98) For the purposes of enabling the Directors to determine whether or not any share is to be transferred to a Foreign Investor, every share transfer shall contain a declaration as to whether or not the transferee shall be a Local Investor. The Directors may require such further evidence as they may properly require to establish that the transferee shall be Local Investor. In default the transferee may be deemed by the Directors to be a Foreign Investor.

14.8.15 Winding Up

99) If the Company shall be wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Act, divide amongst the members in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other securities whereon there is any liability.

14.9 Material Contracts

14.9.1 Franchise Agreements

The Company has entered into various Franchise Agreements whose details are summarised in the table below:

Franchisor	Franchise	Duration
1 Mr Price Group Limited	Mr Price, Mr Price Home	10 years from 01 January 2011.
2 Truworths Limited	Truworths	Renewed until 30 November 2018.
3 Adidas Emerging Markets LLC	Adidas	Annual rolling contract, renewed on 31 July each year.
4 Retail World Limited	Babyshop	Five years from 19 April 2016.

14.9.2 LifeFitness Distribution Agreement

On 01 April 2010, the Company entered into an exclusive distribution agreement with Impex Solutions FZCO ("Impex") under which Impex appointed the Company to be the sole and exclusive representative and distributor in Kenya, Uganda, Rwanda, Burundi and Tanzania of the products branded under the names LifeFitness, Hammer Strength, Pavi Gym, TKO Fitness accessories, LeMonde, Bikes and Klafs Sauna and Steam, and such other products as agreed by the parties. The agreement is for a term of three years from 01 April 2010 and thereafter from year to year unless terminated in accordance with the Agreement.

14.9.3 Distributorship Agreement dated 14 May 2014 between Bossini Garment Limited and Deacons

Under this agreement Bossini Garment Limited has granted the Company the rights and license as its sole and exclusive distributor to use its distinctive business format comprising its trademark "Bossini" and other operational procedures in carrying out the business of selling products identified by the trademark. The permitted use of the trademark "Bossini" is restricted to the territories of Kenya, Uganda and Rwanda. The agreement is for a term of five years with effect from the commencement date which was 01 July 2013.

14.9.4 Leases in respect of Premises Leased by the Company

The Group has leased various premises for its stores and offices, whose details are summarised in the table below. The agreements in relation to the various premises are documented in leases or letters of offer.

Location	Brand	Landlord	Lease Expiry Date
Sarit Centre	Truworths	PBM Nominees Ltd.	31 July 2020
Junction Mall	Truworths	The Junction Ltd.	15 February 2021
Yaya Centre	Truworths	Yaya Centre	30 November 2019
Garden City	Mr Price Combo	GC Retail Ltd.	01 February 2025
Galleria	Mr Price Apparel	Parkside Development Ltd.	28 November 2017
Capital Centre	Mr Price Apparel	Modways Development Ltd.	19 February 2020
Junction Mall	Mr Price Apparel	The Junction Ltd.	25 March 2023
Nyali Plaza	Mr Price Apparel	Nyali Plaza Ltd.	01 November 2018
Moi Avenue	Mr Price Apparel	Nellea Ltd.	30 July 2021
Oasis	Mr Price Apparel	Khadhar Investments Ltd.	30 April 2021
Acacia	Mr Price Combo	Gulfstream Investment Uganda Ltd.	30 June 2024
Kigali City Towers	Mr Price Apparel	Doyelcy Ltd.	30 May 2017
Two Rivers	Mr Price Apparel	Two Rivers Lifestyle Centre Limited	30 June 2026
Kigali Heights	Mr Price Apparel	Kigali Heights Development Limited	30 June 2020

Location	Brand	Landlord	Lease Expiry Date
Yaya	Mr Price Home	Yaya Towers Ltd.	30 August 2021
Junction Mall	Mr Price Home	The Junction Ltd.	25 March 2023
Sarit Centre	Mr Price Home	PBM Nominees Ltd.	30 July 2020
Two Rivers	Mr Price Home	Two Rivers Lifestyle Centre Limited	30 June 2026
Garden City	Bossini	GC retail Limited	28 February 2026
Acacia	Bossini	Gulfstream Investment Uganda Ltd.	31 July 2024
Yaya	Bossini	Yaya Towers Ltd.	01 July 2018
Village Market	Bossini	Market Master	30 September 2018
The HUB	Bossini	Azalea Holdings Limited	31 January 2021
Two Rivers	Bossini	Two Rivers lifestyle Centre limited	30 May 2026
Kigali Heights	Bossini	Kigali Heights Development Company	30 May 2021
Sarit Centre	Babyshop	PBM Nominees Ltd.	31 January 2017
Junction Mall	Babyshop	The Junction Ltd.	01 June 2021
TRM	Babyshop	TRM Holdings Limited	01 September 2023
Adidas Sarit Cntre	Adidas	PBM Nominees Ltd	01 September 2020
The HUB	Adidas	Azalea Holdings Limited	28 February 2021
Two Rivers	Adidas	Two Rivers lifestyle Centre limited	30 May 2026
Capital Centre	4U2	Moodways Investments Ltd.	09 February 2021
Thika Road Mall	4U2/Angelo	TRM Holdings Limited	01 April 2022
Sarit Centre	4U2	PBM Nominees Ltd.	31 October 2017
Junction Mall	Angelo	The Junction Ltd.	16 February 2021
Sarit Centre	Angelo	PBM Nominees Ltd.	31 January 2019
Norfolk Towers	Head Office	Norfolk Towers Ltd.	30 January 2017
Norfolk Towers	Head Office	Norfolk Towers Ltd.	30 February 2020

14.9.5 Facility Agreements

	Facility Agreement	Total Amount	Purpose	Security
1	Multi Optional Facility Agreement dated 01 March 2016 from NIC Bank Limited ("NIC Bank") to the Company	KES 480,000,000.00 USD 750,000.00 ZAR 18,500,000.00	• For Importation of apparels and other stocks of trade. • To finance working capital requirements of the Company. • To finance Capital Expenditure for new shops to be opened under the various franchises currently held and others being pursued. • To take over an existing facility at Barclays Bank of Kenya Limited • For Spot and Forward foreign exchange transactions.	Joint guarantee and Debenture over the assets of the Company to cover KES 480,000,000.00, USD 750,000.00 and ZAR 18,500,000.00 ranking pari passu with a charge held by NIC Bank Limited and UBA Kenya Bank Ltd.
2	Facility Agreement between Deacons Uganda Limited and Bank of Africa, Uganda Ltd.	UGX 393,375,078.00 ZAR 5,000,000.00 USD 100,000.00	• To facilitate issuance of Bonds and Guarantees in the normal course of business and to finance working capital.	A corporate guarantee from Deacons (East Africa) PLC (formerly Deacons Kenya Ltd) to the tune of UGX 300,000,00.00, ZAR 5,000,000.00, USD 100,000.00
3	Multi Optional Facility Agreement dated 31st May 2016 from UBA Kenya Bank Limited	KES 500,000,000.00	• To finance working capital • To facilitate issuance of bonds and guarantees • For spot and forward foreign exchange transactions	Fixed and floating Debenture over all the assets of the borrower with a cumulative net realizable value of KES 500,000,000.00 ranking in pari passu with the debentures issued in favour of NIC bank
4	Facility Agreement between Deacons Rwanda Limited and Kenya Commercial Bank, Rwanda Ltd	RWF 324,480,301.00.	• To finance working capital. • To facilitate issuance of guarantees.	A corporate guarantee from Deacons (East Africa) PLC (formerly Deacons Kenya Ltd) covering the total loan exposure and floating debenture over assets of Deacons Rwanda Ltd.

The Company and its subsidiaries are not in breach of any of their loan covenants.

14.9.6 Employee Share Save Scheme

On 26 October 2010, the Company entered into a trust deed with Hamilton Harrison and Mathews as trustees to establish an employee share save scheme. The Trust was funded by a loan from the Company to purchase 640,000 shares of par value KES 5.00 each on behalf of the employees during the 2010 Public Offer. The Trust Deed allowed eligible full-time employees of the Company and its subsidiaries (eligible employees) to apply for and purchase shares held by the trustees using their salaries via check off. The shares would be held by a trustee until such time as the eligible employee had paid for the shares in full, or as otherwise stated in the Trust Deed. The trust deed is governed by the laws of Kenya.

On 12 April 2016, the Board of Deacons resolved to suspend the Employee Share Save Scheme effective 31 March 2016. The number of shares as at the date of suspension was 2,560,000 following a share split and bonus issue in 2012. Of the total number of shares, 1,098,736 were to be distributed to the eligible shareholders and 1,461,264 would be retained in the Trust. The shares retained in the Trust would then be sold after the listing and the proceeds would be returned to the Company. Following the sale of all the shares held in the Trust, the Trust would be terminated.

14.9.7 Other Contracts

Deacons has not entered into any other contracts otherwise than in the ordinary cause of business during the two years prior to the date of this Information Memorandum.

14.9.8 Onerous Covenants and Default

The Company has no material contracts with third parties which contain any onerous covenants. The Company is not in default of any terms of any material contracts

14.10 Material Litigation

The Company is not involved in any material litigation or dispute resolution proceedings.

14.11 Property and Information on Material Assets acquired in the last three years

The Company does not own any immovable property. All properties occupied by the Company are held under lease agreements with third parties, whose details are summarised at section 14.9.4.

Other than the assets of Nyoya Limited and Deacons 2002 Limited, the Company has not acquired any material assets in the last three years.

14.12 General Information

(i) There are no founders', management or deferred shares in the capital of the Company;

(ii) The share capital of the Company is not divided into different classes of shares and all shares carry equal rights;

(iii) No unissued share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option;

(iv) As at the date of this Information Memorandum there are 41,772 unissued shares in the Company but there are no categories of persons having preferential subscription rights to such unissued shares;

(v) The Company's auditors have not resigned nor have they been removed since its incorporation and Deloitte and Touche, as the Company auditors, have not deposited a statement with the Company of circumstances which they believe should be brought to the attention of the members and creditors of the Company;

(vi) Deloitte and Touche and Coulson Harney have given and have not withdrawn their respective consents to the issue of this document with the inclusion therein of their reports and names and the references thereto in the form and context in which they appear respectively;

(vii) Save as disclosed in this Information Memorandum, there is no existing or proposed contract between any Directors of the Company or any of its subsidiaries;

(viii) The Company's Articles of Association do not stipulate a minimum number of Shares required by an individual to allow for qualification as a Director of the Company;

(ix) No amounts have been paid or agreed to be paid in cash or otherwise by any person to any present Director, or to any partnership, company, syndicate, or other association of which any Director is a member, either to induce him to become or to qualify him as a Director or for services rendered by any such Director or by any such partnership, company, syndicate or association in connection with the promotion or formation of the Company;

(x) No bankruptcy, receivership or similar proceedings have been instituted against any member of the Company;

(xi) There is no specific government protection and/or any investment encouragement law affecting the business;

(xii) There are no principal future investments (new research and development) on which the Directors have already made firm commitments;

(xiii) Save as disclosed, there has been no change in the direct and indirect interest of the Directors holding in excess of 3% of the share capital of the Company between the financial year of the Company ending 31 December 2015 and the date of publication of this Information Memorandum;

(xiv) Save as disclosed in Section 10 and 6.2, there are no transactions which are or were unusual in their nature or conditions or significant to the business of the Company, effected during the current or immediately preceding year or any earlier financial year which remain outstanding or unperformed;

(xv) Save for the salaries and benefits received by the Executive Director under service contracts with the Company and fees paid to non-executive directors, no other cash, securities or benefits have been paid, issued or given to any Director in the last three years preceding the publication of this Information Memorandum or proposed to be paid, issued or given to any such persons, in his capacity as a Director.

(xvi) No cash, securities or benefits have been paid, issued or given to any promoters or members of the Company in the last three years preceding the publication of this Information Memorandum or proposed to be paid, issued or given to any such persons, in his capacity as a promoter;

(xvii) The Board may exercise all the powers of the Company to borrow or raise money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue income notes, bonds, debentures and other securities. The borrowing powers of the Board have not been exceeded in the past three years.

(xviii)The Company has no outstanding loan capital or indebtedness other than in the ordinary course of business nor has it exceeded any applicable borrowing powers over the last three years.

(xix) None of the Directors of the Company have in the last two years been subject to bankruptcy proceedings nor have they been barred by any court of competent jurisdiction from being a director or acting as an investment adviser or as a director or employee of a stockbroker, dealer, or any other financial service institution or from engaging in any type of business practice or activity.

(xx) There have been no criminal proceedings in which any director of the Company has been convicted of fraud or any criminal offence either within or outside Kenya and no Director of the Company is the subject of any pending criminal proceedings, or investigations in respect of any other offence or action either within or outside Kenya.

(xxi) The following are the inter-company loan balances:

NAME OF SUBSIDIARY	AMOUNT OWED TO THE COMPANY (KES)
Nyoya Limited	18,812,566
Deacons 2002 Limited	43,672,027
Tanzania Fashion Stores Limited	98,703,889
Deacons Uganda Limited	187,939,476
Deacons Mauritius Limited	130,201,162
Deacons Rwanda Limited	45,147,704
TOTAL INTERCOMPANY LOAN AMOUNT	**524,476,824**

(xxii)Save as disclosed in relation to the disposal of Woolworths (see part 6.2 and the Accountant's Report); there have been no material disposals of assets by the Company or any of its Subsidiaries in the last five years.

(xxiii)There is no arrangement pursuant to which any future dividends of the Company have been waived or have been agreed to be waived.

14.13 Kenyan Taxation

The comments below are of a general nature based on taxation law and practice in Kenya as at the date of this Information Memorandum and are subject to any changes thereafter. They relate only to the position of persons who are absolute beneficial owners of shares of Deacons. It does not purport to be a complete analysis of all tax considerations relating to those shares and so should be treated with appropriate caution. Neither Deacons nor any of the Directors or any of Deacons' officers or advisers accepts any liability for any taxation implications of Shareholders and Investors in connection with the Listing.

Prospective investors should consult their own professional advisers concerning the possible tax consequences of purchasing, holding and/or selling shares and receiving payments of dividends and/or other amounts in respect of shares under the applicable laws of their country of citizenship, residence or domicile.

Withholding Tax and Dividend Payments

The issuer assumes responsibility for the withholding of tax at source.

Withholding tax at the rate of 5% will be deducted from dividend payments made to Kenya resident shareholders of the company and at 10% for non-resident shareholders in terms of prevailing legislation as set out in the Kenya Income Tax Act (which is subject to revision through changes in Government policy). Non-residents may be entitled to a tax credit in their country of residence, either under domestic law or under tax treaties.

Capital Gains

Any gains or losses which accrue on the disposal of the shares will constitute a chargeable gain or an allowable loss under the current Kenyan taxation laws.

Stamp Duty

So long as shares are listed on the NSE no stamp, registration or similar duties or taxes will be payable in Kenya in connection with the transfer of the shares in accordance with current legislation.

14.14 Documents Available for Inspection

The following documents, or copies thereof, will be available for inspection at Deacons' head office, Norfolk Towers, Kijabe Street, Nairobi, from 30 June 2016, during normal business hours:

- a copy of this Information Memorandum;
- a copy of the Memorandum and Articles of Association of Deacons (East Africa) PLC;
- copies of any special or ordinary resolutions amending the memorandum and articles of association or the Company's share capital within the last five years;
- a copy of the names of Shareholders and Board members approving the Listing;
- the consolidated audited accounts of Deacons (East Africa) PLC for the preceding five years ended 31 December 2015;
- the written consent of the legal advisers and reporting accountants to the publication of their reports, the texts of which are included, and references thereto, in the form and context in which they appear in the Information Memorandum;
- valuation report prepared by the Transaction Adviser;
- the Legal Opinion, which is included in section 15;
- the Reporting Accountants' report, which is included in section 14;
- Trust Deed for Staff Share Save Scheme;
- The approval of the CMA relating to the Listing; and
- The approval of the NSE relating to the Listing;
- Chief Executive Officer's employment contract;
- Franchise Agreements;LifeFitness Distribution Agreement;
- Distributorship Agreement dated 14 May 2014 between Bossini Garment Limited and Deacons;
- Leases in respect of Premises Leased by the Company; and
- Facility Agreements;

15 REPORTING ACCOUNTANTS' REPORT

30 June 2016

The Directors
Deacons Kenya Limited
Norfolk Towers, Kijabe Street
P.O. Box 30087 – 00100
Nairobi

Dear Sirs,

REPORTING ACCOUNTANTS' REPORT ON DEACONS KENYA LIMITED

A. INTRODUCTION

We have examined the audited consolidated financial statements of Deacons Kenya Limited (the "Company") and its subsidiaries, (collectively referred to as "The group") for the 5 years ended 31 December 2015.

The financial information set out in this report was prepared in accordance with International Standard on Related Services 4410 – Engagements to compile Financial Statements ("ISRS 4410") and is based on the audited financial statements of the group. Deloitte & Touche, Certified Public Accountants (Kenya) have acted as auditors of the group for the five years. For each of the relevant years, unqualified audit reports were issued on the annual financial statements.

To enable us prepare the Accountants' Report, we carried out procedures to satisfy ourselves that the information presented in the financial statements was in accordance with Section 19 of the Third Schedule of the Companies Act 486, and Part D of the Third Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002. To this end we carried out the following procedures:

(i) reviewed the financial statements of the group for each of the five years ended 31 December 2011, 2012, 2013, 2014 and 2015 for compliance with International Financial Reporting Standards (IFRS) and consistency of application of accounting policies;

(ii) made enquiries from the group's management with respect to significant matters relevant to the financial information;

(iii) reviewed other evidence relevant to the group's financial statements.

The accompanying financial information is based on the audited financial statements of the group, after making the adjustments considered appropriate to make all the financial statements compliant with International Financial Reporting Standards and accounting policies applicable for the financial year ended 31 December 2015.

We are not aware of any material items not mentioned in the Information Memorandum regarding The Listing, which could influence the evaluation by the investors' view of the assets, liabilities and financial position of the group. The audited financial statements have been prepared on the basis of the accounting policies set out in section E of this report. For all the accounting periods dealt with in this report, the financial statements have, in all material respects, been prepared in accordance with the applicable International Financial Reporting Standards.

15 REPORTING ACCOUNTANTS' REPORT

B. SUMMARY OF ADJUSTMENTS

The following adjustments were made to the audited financial statements for the year ended 31 December 2010 so as to conform to International Financial Reporting Standards:

The comparative profit/(loss) from discontinued operations for the years ended 31 December 2012 and 31 December 2011 has been re-presented to include those operations classified as discontinued in 2013 and 2011 in accordance with the requirements of IFRS 5, Discontinued operations..

C. COUNTRY OF INCORPORATION AND PRINCIPAL ACTIVITIES

Deacons Kenya Limited is domiciled and incorporated in Kenya under the Companies Act (Cap. 486) and its principal activities and that of the subsidiaries is retailing of franchise products.

D. CURRENCY

The financial statements are expressed in Kenya Shillings Thousands (Sh'000). Due to a significant proportion of the operations of the group involving transactions that are denominated in Kenya Shillings, the Kenya Shilling is the group's presentation currency.

E. DIRECTORS' RESPONSIBILITY

The directors of Deacons Kenya Limited are responsible for the preparation of the Information Memorandum and all information contained therein and for the financial statements and financial information to which the Accountants' Report relates and from which it has been prepared. Our responsibility is to compile the financial information set out in our report from the financial statements.

F. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out in this section. These policies have been consistently applied for all the periods covered by this report.

1. **Statement of compliance**

   The financial statements are prepared in accordance with International Financial Reporting Standards.

   For the purposes of reporting under the Kenyan Companies Act, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

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

   (i) Annual improvements to IFRS

   There are various amendments to existing standards resulting from Annual Improvements to IFRSs which were effective in the five year period covered by this report but had no material effect on the group's financial statements. Those that had an impact on the group's financial statements have been summarised in section B of this report.

   (ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015.

15 REPORTING ACCOUNTANTS' REPORT

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IAS 1	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IFRS's Annual improvements	1 January 2016

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

The directors of the group do not anticipate that the application of IFRS 9 in the future will have a significant impact on amounts reported in respect of the group'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.

IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if IFRS 9 is early adopted).

As mentioned above, the new revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle 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

Far more prescriptive guidance has been introduced by the new revenue Standard:

- Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.

- Whether the transaction price allocated to each performance obligation should be recognised as revenue over time or at a point in time. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, which is when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IAS 18, the new Standard does not include separate guidance for 'sales of goods' and 'provision of services'; rather, the new Standard requires entities to assess whether revenue should be recognised over time or a particular point in time regardless of whether revenue relates to 'sales of goods' or 'provision of services'.

- When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognised. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new Standard introduces a high hurdle for variable consideration to be recognised as revenue – that is, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

- When costs incurred to obtain a contract and costs to fulfil a contract can be recognised as an asset.

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. The directors of the group anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the group's financial statements.

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

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods (Continued)

Amendments to IAS 1 ***(Disclosure Initiative)***

The amendments were a response to comments that there were difficulties in applying the concept of materiality in practice as the wording of some of the requirements in IAS 1 had in some cases been read to prevent the use of judgement. Certain key highlights in the amendments are as follows:

- An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
- An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material.
- In the other comprehensive income section of a statement of profit or loss and other comprehensive income, the amendments require separate disclosures for the following items:
  - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss; and
  - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will be reclassified subsequently to profit or loss.

Application of the amendments need not be disclosed. The directors of the group anticipate that the application of IAS 1 in the future may not have a significant impact on amounts reported in respect of the group's financial statements.

Amendments to 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.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the group do not anticipate that the application of the standard will have a significant impact on the group's financial statements.

Annual Improvements 2012-2014 Cycle

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

The amendments to IFRS 5 introduces 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 amendment clarifies that such a change is considered as a continuation of the original plan of disposal and accordingly an entity should not apply paragraphs 27-29 of IFRS 5 regarding changes to a plan of sale in those situations.

The amendments to IFRS 7 provides 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. Also, the amendment clarifies that the offsetting disclosures are not specifically required for all interim periods. However, the disclosures may need to be included in the condensed interim financial statements to satisfy the requirements in IAS 34 *Interim Financial Reporting.*

The amendments to IAS 19 clarifies 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 basis for conclusions to the amendment also clarifies that the depth of the market for high quality corporate bonds should be assessed at a currency level which is consistent with the currency in which the benefits are to be paid. For currencies for which there is no deep market in such high quality bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency should be used.

The directors of the group do not anticipate that the application of these amendments will have a significant impact on the group's financial statements.

iii) Early adoption of standards

The group did not early-adopt any new or amended standards in the period.

2. Basis of preparation

The consolidated financial statements are prepared under the historical cost basis of accounting.

3. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (Board of Directors). The Board of Directors allocates resources to and assesses the performance of the operating segments of the group.

Segment result is segment revenue less segment expenses.

Segment revenue is the revenue that is directly attributable to a segment plus the relevant portion of the group's revenue that can be allocated to the segment on a reasonable basis.

Segment expenses are expenses resulting from the operating activities of a segment plus the relevant portion of an expense that can be allocated to the segment on a reasonable basis.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment capital expenditure represents the total cost incurred during the year to acquire segment assets (property, plant and equipment) that are expected to be used over a period of more than one year.

4. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised.

Sale of goods
Revenue is recognized upon delivery of products and customer acceptance, if any, net of refunds, discounts and value added tax (VAT).

Other income
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividends receivable are recognised as income in the period in which the right to receive payment is established.

5. Basis of consolidation

a) Subsidiaries

The consolidated financial statements incorporate the financial statements of the company and its subsidiary. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries, whose financial period ends on 31 December (See note 17).

b) Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

c) Disposal of subsidiaries
When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest

as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

6. Investments in subsidiary companies

Investments in subsidiary companies are stated at cost less provision for impairment where applicable.

7. Investments in associates

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

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

The group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the group' consolidated financial statements only to the extent of interests in the associate that are not related to the group. These transactions between the group and its associates, are not eliminated in the preparation of these financial statements.

8. Taxation

Income tax represents the sum of tax currently payable and deferred tax.

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation.

15 REPORTING ACCOUNTANTS' REPORT

Deferred taxation is provided, under the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised, while deferred tax liabilities are recognised for all taxable temporary differences.

9. Foreign currencies

i) Transactions and balances

Transactions in foreign currencies during the year are translated into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at the end of the reporting period. The resulting differences from conversion and translation are dealt with in the profit or loss for the year in which they arise.

ii) Translation of foreign operations

The results and financial position of all the group entities (none of which has the currency of a hyperinflationery economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated into Kenya Shillings using exchange rates prevailing at the end of the reporting period;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised under other comprehensive income and accumulated in a separate heading, translation reserve, in the consolidated statement of changes in equity.

10. Furniture, fittings and equipment and depreciation

Furniture, fittings and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on the reducing balance basis to write off carrying values of the assets over their expected useful lives at the following rates:

Motor vehicles	25% per annum
Furniture, fittings and equipment	12.5% per annum
Computer equipment	30% per annum

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

11. Intangible assets

Intangible assets represent computer software.

Intangible assets acquired separately are measured on initial recognition at cost.

15 REPORTING ACCOUNTANTS' REPORT

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Computer software is amortised over the expected useful live at 331/3% per annum.

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense is recognised in profit or loss.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

12. Lease prepayments

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

13. Employment benefits

Pension obligations

The Group operates a defined contribution pension scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by contributions from both the group and employees.

Statutory pension obligations

The group also contributes to statutory defined pension schemes, the National Social Security Fund (NSSF). The groups's obligations under the scheme are limited to specific contributions legislated from time to time in the various countries.

The group's contributions to the above schemes are charged to profit or loss in the year to which they relate.

14. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in selling and distribution. Specific provisions are made for slow moving and defective inventories.

Goods in transit are stated at cost.

15. Provisions

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

Employee entitlements to annual leave and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service awards as a result of services rendered by employees up to the end of the reporting period.

16. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and cash equivalents as defined above, net of outstanding bank overdrafts.

17. Financial instruments

Financial assets and liabilities are initially recognised in the group's statement of financial position at cost using settlement date accounting, when the group has become a party to the contractual provisions of the instrument.

Trade and other receivables
Trade receivables are recognised initially at fair values and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The objective evidence of impairment of receivables is when there is a significant financial difficulty of the counter party or when there is a default or delinquency by the customer. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

Impairment and uncollectability of financial assets
At the end of each reporting period, all financial assets are subject to review for impairment. If it is probable that the group will not be able to collect all amounts due (principal and interest) according to the contractual terms of receivables or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through use of an allowance account. The amount of the loss incurred is included in the profit or loss for the period.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

15 REPORTING ACCOUNTANTS' REPORT

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised..

Financial Liabilities
After initial recognition, the group measures all financial liabilities other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Borrowings
Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

Trade payables
Trade payables are stated at their nominal value

18. Dividends

Dividends payable are charged to equity in the period in which they are declared. Proposed dividends are not accrued for until approved in an annual general meeting.

19. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the year 2015.

15 REPORTING ACCOUNTANTS' REPORT

G. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the group's accounting policies, management makes certain estimates and assumptions about future events. In practice, the estimated and assumed results at times differ from the actual results. Such estimates and assumptions, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Furniture, fittings and equipment

Management makes estimates in determining the depreciation rates for furniture, fittings and equipment. The rates used are set out in the accounting policy for furniture, fittings and equipment.

These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

Provision for doubtful debts

The group reviews its debtors' portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable.

Provision for inventory obsolescence

The group reviews its inventories regularly for obsolete or slow moving stocks. This requires an estimation of the amounts that are irrecoverable.

15 REPORTING ACCOUNTANTS' REPORT

H. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Sales		2,383,297	1,927,669	1,791,863	1,611,651	1,562,846
Cost of sales		(1,274,514)	(1,049,071)	(1,090,852)	(1,017,553)	(870,289)
Gross profit		1,108,783	878,598	701,011	594,098	692,557
Interest income		37,664	32,778	21,640	862	7,944
Share of profit of associate company	14(a)	53,832	28,679	15,022	-	-
Profit on disposal of associate	14(b)	64,933	-	-	-	-
Profit on disposal of business	3	-	-	405,856	-	-
Other income		12,222	36,833	27,821	-	-
Administrative expenses	4	(938,211)	(731,573)	(825,145)	(656,398)	(491,951)
Selling expenses	5	(143,796)	(125,429)	(164,278)	(108,038)	(78,434)
Finance costs	6	(79,405)	(60,273)	(84,782)	(70,019)	(21,036)
Net foreign exchange gains		25,573	28,557	67,132	73,609	7,018
Profit/(loss) before taxation		**141,595**	**88,170**	**164,277**	**(165,886)**	**116,098**
Taxation (charge)/credit	7(a)	(27,845)	(26,767)	59,703	4,999	(68,296)
Profit/(loss) for the year from continuing operations	8	113,750	61,403	223,980	(160,887)	47,802
Loss for the year from discontinued operation	9	-	-	(45,443)	122,837	64,845
PROFIT/(LOSS) FOR THE YEAR		**113,750**	**61,403**	**178,537**	**(38,050)**	**112,647**
OTHER COMPREHENSIVE INCOME:						
Exchange differences from translation of foreign operations		(13,182)	(3,350)	669	(4,909)	347
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**100,568**	**58,053**	**179,206**	**(42,959)**	**112,994**
Basic and diluted earnings/(loss) per share from continuing operations	10	0.92	0.50	1.81	(1.30)	0.39
Basic and diluted earnings/(loss) per share from discontinued operation	10	-	-	(0.37)	0.99	0.52

15 REPORTING ACCOUNTANTS' REPORT

I. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
ASSETS						
Non-current assets						
Furniture, fittings and equipment	11	640,843	467,603	416,996	591,024	534,360
Lease prepayments	12	22,789	22,025	6,091	19,421	22,029
Intangible assets	13	54,425	8,498	3,707	5,970	16,691
Investment in associate	14(a)	-	162,751	134,072	-	-
Deferred taxation	15	34,402	43,254	54,043	34,322	25,973
Other receivables	16	41,204	64,262	69,711	72,777	80,946
		793,663	768,393	684,620	723,514	679,999
Current assets						
Taxation recoverable	7(c)	32,234	39,545	43,451	37,809	7,164
Loan to associate	14(c)	-	297,735	308,151	-	-
Trade and other receivables	16	531,780	84,461	97,374	145,412	100,909
Inventories	17	931,979	712,898	743,896	966,572	930,667
Due from related parties	18(b)	-	10,477	58,405	-	-
Bank and cash balances	25(b)	196,416	48,373	47,152	80,807	78,974
		1,692,409	1,193,489	1,298,429	1,230,600	1,117,714
Total assets		**2,486,072**	**1,961,882**	**1,983,049**	**1,954,114**	**1,797,713**
EQUITY AND LIABILITIES						
Capital and Reserves						
Share capital	20	308,896	308,896	308,896	308,896	154,448
Share premium	21	548,803	548,803	548,803	548,803	703,251
Retained earnings		674,909	561,159	499,756	321,219	397,881
Translation reserves		(20,314)	(7,132)	(3,782)	(4,451)	458
Shareholders' funds		**1,512,294**	**1,411,726**	**1,353,673**	**1,174,467**	**1,256,038**
Non current liabilities						
Deferred taxation	15	-	-	-	15,696	16,775
Borrowings	22	390,632	138,381	246,203	195,870	11,230
		390,632	138,381	246,203	211,566	28,005
Current liabilities						
Borrowings	22	264,147	95,318	69,857	151,632	118,199
Trade and other payables	23	318,999	316,457	313,316	416,449	371,182
Derivative liability	24	-	-	-	-	23,940
Taxation payable	7(c)	-	-	-	-	349
		583,146	411,775	383,173	568,081	513,670
Total shareholders' funds and liabilities		**2,486,072**	**1,961,882**	**1,983,049**	**1,954,114**	**1,797,713**

15 REPORTING ACCOUNTANTS' REPORT

J. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE 5 YEARS ENDED 31 DECEMBER 2015

	Share capital Shs'000	Share premium Shs'000	Revenue reserves Shs'000	Translation Reserve Shs'000	Total equity Shs'000
At 1 January 2011	154,448	703,251	322,301	111	1,180,111
Dividend paid – 2010	-	-	(37,067)	-	(37,067)
Profit for the year			112,647	-	112,647
Other comprehensive income	-	-	-	347	347
Total comprehensive income for the year	-	-	112,647	347	112,994
At 31 December 2011	154,448	703,251	397,881	458	1,256,038
At 1 January 2012	154,448	703,251	397,881	458	1,256,038
Bonus issue of shares	154,448	(154,448)	-	-	-
Dividends paid – 2011	-	-	(38,612)	-	(38,612)
Loss for the year	-	-	(38,050)	-	(38,050)
Other comprehensive loss	-	-	-	(4,909)	(4,909)
Total comprehensive loss for the year	-	-	(38,050)	(4,909)	(42,959)
At 31 December 2012	308,896	548,803	321,219	(4,451)	1,174,467
At 1 January 2013	308,896	548,803	321,219	(4,451)	1,174,467
Profit for the year	-	-	178,537	-	178,537
Other comprehensive income	-	-	-	669	669
Total comprehensive income for the year	-	-	178,537	669	179,206
At 31 December 2013	308,896	548,803	499,756	(3,782)	1,353,673

15 REPORTING ACCOUNTANTS' REPORT

J. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)
FOR THE 5 YEARS ENDED 31 DECEMBER 2015

	Share capital Shs'000	Share premium Shs'000	Revenue reserves Shs'000	Translation Reserve Shs'000	Total equity Shs'000
At 1 January 2014	308,896	548,803	499,756	(3,782)	1,353,673
Profit for the year	-	-	61,403	-	61,403
Other comprehensive loss	-	-	-	(3,350)	(3,350)
Total comprehensive income for the year	-	-	61,403	(3,350)	58,053
At 31 December 2014	308,896	548,803	561,159	(7,132)	1,411,726
At 1 January 2015	308,896	548,803	561,159	(7,132)	1,411,726
Profit for the year	-	-	113,750	-	113,750
Other comprehensive loss	-	-	-	(13,182)	(13,182)
Total comprehensive income for the year	-	-	113,750	(13,182)	100,568
At 31 December 2015	308,896	548,803	674,909	(20,314)	1,512,294

15 REPORTING ACCOUNTANTS' REPORT

K. CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE 5 YEARS ENDED 31 DECEMBER 2015

	Notes	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash (used in)/generated from operations	25(a)	(483,244)	280,757	499,057	69,849	46,526
Taxation paid	7(c)	(13,280)	(13,401)	(8,878)	(32,523)	(87,596)
Net cash (used in)/generated from operating activities		(496,524)	267,356	490,179	37,326	(41,070)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of equipment		(294,058)	(115,183)	(89,771)	(139,539)	(260,729)
Additions to lease prepayments		(5,942)	(19,140)	(15,190)	(5,184)	(4,538)
Purchase of intangible assets		-	-	(682)	(1,303)	(8,864)
Proceeds of disposal of equipment		162	2,284	121,417	63	4,881
Investment in associate company	18	-	-	(119,050)	-	-
Proceeds from sale of interest in associate	14(b)	420,454	-	-	-	-
Proceeds of disposal of short term deposit maturing over 90 days		-	-	-	-	200,000
Proceeds of disposal of lease prepayments			-	4,018	-	-
Net cash generated from/(used in) investing activities		120,616	(132,039)	(99,258)	(145,963)	(69,250)
CASH FLOWS FROM FINANCING ACTIVITIES						
Loan to associate	14(b)	-	-	(357,151)	-	-
Proceeds of loan repayments by associate	14(b)	192,770	10,416	49,000	-	-
Proceeds of loan		528,791	-	100,168	298,887	-
Repayment of loan		(140,055)	(104,094)	(55,269)	(58,561)	(91,241)
Interest on borrowings		(79,405)	(60,273)	(84,829)	(70,639)	(22,965)
Dividends paid		-	-	-	(38,612)	(37,067)
Net cash generated from/(used in) financing activities		502,101	(153,951)	(348,081)	131,075	(151,273)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		126,193	(18,634)	42,840	**22,438**	**(261,593)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**14,521**	**35,033**	**(7,653)**	**(31,739)**	**226,072**
Effect of exchange rates		**(3,990)**	**(1,878)**	**(154)**	**1,648**	**3,782**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**25(b)**	**136,724**	**14,521**	**35,033**	**(7,653)**	**(31,739)**

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

SEGMENTAL INFORMATION

a) Markets from which reportable segments derive their revenues

The Board of Directors is the group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of resource allocation and assessment of segment performance. The Board of Directors considers the business from both a geographic and product perspective.

The group's reportable segments under IFRS 8 are therefore as follows;

- Product sales – apparel, home and sports.
- Geographical – Kenya, Uganda, Rwanda and Tanzania.

The Tanzania segment of the group has been reported as a discontinued operation following the board resolution to discontinue the current operations in this segment in December 2011.

b) Segment revenues and results

Sales analysis by product segments

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Continuing operations:					
Apparel	1,799,287	1,624,398	1,390,452	1,177,619	1,117,339
Home	289,903	162,748	230,934	273,539	276,560
Sports	294,107	140,523	170,477	160,493	168,947
	2,383,2971,927,669	1,791,863	1,611,651	1,562,846	
Discontinued operations:					
Apparel	-	-	211,102	884,144	914,174

External sales by geographical segments

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Continuing operations:					
Kenya	2,062,358	1,709,423	1,576,197	2,268,231	2,250,589
Uganda	254,223	155,775	143,394	134,472	165,645
Rwanda	66,716	62,471	72,272	85,074	5,357
	2,383,297	1,927,669	1,791,863	2,487,777	2,421,591
Discontinued operations:					
Tanzania	-	-	-	9,018	55,429
Kenya	-	-	211,102	875,126	858,745
Apparel	-	-	211,102	884,144	914,174

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

SEGMENTAL INFORMATION (Continued)

b) Segment revenues and results (Continued)

Profit/(loss) before taxation by geographical segments

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Continuing operations:					
Kenya	156,663	58,121	298,281	(140,888)	83,966
Uganda	2,085	17,219	(109,541)	614	33,312
Rwanda	(16,799)	(15,572)	(24,194)	(25,312)	(882)
Mauritius	(354)	(277)	(269)	(300)	(298)
	141,495	59,491	164,277	(165,886)	116,098
Discontinued operations:					
Tanzania	-	-	(315)	(7,823)	(36,230)
Kenya	-	-	(17,245)	127,660	96,789
	-	-	(17,560)	119,837	60,559

Profit/(loss) after taxation by geographical segments

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Continuing operations:					
Kenya	130,227	61,359	332,805	(140,611)	23,231
Uganda	1,468	12,557	(90,425)	430	25,489
Rwanda	(17,591)	(12,236)	(18,131)	(20,406)	(620)
Mauritius	(354)	(277)	(269)	(300)	(298)
	113,750	61,403	223,980	(160,887)	47,802
Discontinued operations:					
Tanzania	-	-	(17,245)	127,660	(31,944)
Kenya	-	-	(28,198)	(4,823)	96,789
	-	-	(45,443)	122,837	64,845

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

SEGMENTAL INFORMATION (Continued)

b) Segment revenues and results (Continued)

Profit/(loss) before taxation by geographical segments

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Depreciation and amortisation expense					
Continuing operations:					
Kenya	64,682	53,125	53,743	63,993	40,162
Uganda	6,471	2,549	6,904	3,365	4,075
Rwanda	5,195	5,051	6,513	-	-
Discontinued operations:					
Tanzania	-	-	-	65	3,004
Kenya	-	-	5,650	20,310	24,055
	76,348	60,725	72,810	87,733	71,296
Interest expense					
Continuing operations:					
Kenya	61,729	39,619	59,917	51,767	13,423
Uganda	10,747	12,791	16,004	9,929	6,657
Rwanda	6,929	7,863	8,861	8,323	956
	79,405	60,273	84,782	70,019	21,036
Discontinued operations:					
Tanzania	-	-	-	-	385
Kenya	-	-	47	620	1,543
	-	-	47	620	1,928

c) Segment assets

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Kenya	2,114,019	1,761,868	1,782,170	1,636,661	1,602,181
Uganda	280,760	106,264	95,664	177,494	85,727
Tanzania	1,196	1,661	2,268	31,075	38,391
Rwanda	89,804	91,825	102,691	108,630	70,855
Mauritius	293	264	256	254	559
	2,486,072	1,961,882	1,983,049	1,954,114	1,797,713

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

SEGMENTAL INFORMATION (Continued)

b) Segment revenues and results (Continued)

Profit/(loss) before taxation by geographical segments

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
d) Segment liabilities					
Kenya	844,429	416,195	470,469	506,528	449,429
Uganda	75,696	70,012	95,392	100,621	52,240
Tanzania	520	511	760	120,357	980
Rwanda	52,945	63,390	62,712	51,879	38,977
Mauritius	188	48	43	262	43
	973,778	550,156	629,376	779,647	541,675

e) Information about major customers

No single customer contributed 10% or more to the group's revenue for the years 2011, 2012, 2013, 2014 and 2015.

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
2 STAFF COSTS					
– CONTINUING OPERATIONS					
Salaries	214,517	197,637	178,443	142,398	125,166
Medical costs	13,780	16,077	15,094	10,141	10,910
Pension scheme contributions	9,309	7,039	5,383	6,276	4,912
Leave pay provision	4,531	1,799	11,265	3,543	275
Other staff costs	45,143	22,333	25,436	26,597	17,865
	287,280	244,885	235,621	188,955	159,128

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
3 PROFIT ON DISPOSAL OF BUSINESS					
Consideration received on disposal of Woolworths business line	-	-	745,318	-	
Less - leave provision	-	-	(2,415)	-	-
- Inventory write offs	-	-	(206,150)	-	-
- Fixed assets	-	-	(120,134)	-	-
- Legal fees	-	-	(9,365)	-	-
- Foreign travel	-	-	(1,398)	-	-
	-	-	*405,856*	-	-

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
4. ADMINISTRATION EXPENSES – CONTINUING OPERATIONS					
Rent and rates	370,209	271,649	260,956	193,704	163,092
Staff costs (note 2)	287,280	244,885	235,621	188,955	159,128
Depreciation	70,812	53,532	55,701	54,727	28,564
Utilities	34,414	37,997	27,743	33,867	27,696
Directors' emoluments	22,198	20,040	20,015	20,917	20,070
Travel and business promotion	17,744	17,750	15,394	25,454	20,899
Computer expenses	5,327	8,414	13,550	14,808	7,419
Amortisation of lease prepayments	3,778	3,206	8,516	7,792	9,319
Amortisation of intangible assets	4,289	3,987	2,945	12,021	6,358
Repair and maintenance	13,021	12,704	12,668	17,350	10,087
Bank charges	5,780	3,247	6,639	3,997	7,836
Insurance	11,647	13,335	11,709	9,770	5,081
Professional fees - Consultancy	27,129	3,392	15,244	17,931	3,967
- Legal	6,886	3,611	13,900	6,643	2,700
- Audit	6,047	6,555	4,292	3,770	2,898
Loss on disposal of assets	-	-	81,493	1,256	4,133
Loss on disposal of lease prepayments	-	-	15,986	-	-
Others	51,650	27,269	22,773	43,436	12,704
	938,211	731,573	825,145	656,398	491,951
5 SELLING EXPENSES – CONTINUING OPERATIONS					
Advertising	36,176	50,440	69,914	49,975	31,718
Credit cards commission	11,936	15,844	17,086	29,932	16,680
Turnover commission	67,617	53,014	70,996	23,901	27,521
Promotional discounts	28,067	6,131	6,282	4,230	2,515
	143,796	125,429	164,278	108,038	78,434
6. FINANCE COSTS – CONTINUING OPERATIONS					
Interest expense	79,405	60,273	84,782	70,019	21,036

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Shs'000	**2014 Shs'000**	**2013 Shs'000**	**2012 Shs'000**	**2011 Shs'000**
7. TAXATION					
(a) TAXATION CHARGE					
Current tax based on taxable profit for the year at 30%	11,299	9,849	1,171	802	68,890
Capital gains tax on sale of associate	8,123	-	-	-	-
Prior year under provision of tax	112	6,647	3,025	-	-
	19,534	16,496	4,196	802	68,890
Deferred taxation (note 14):					
– (Credit)/charge for the year	5,238	11,358	(62,396)	(5,801)	(3,561)
– Prior year over/(under) provision	3,073	(1,087)	(1,503)	-	2,967
	8,311	10,271	(63,899)	(5,801)	(594)
Taxation charge	27,845	26,767	(59,703)	(4,999)	68,296

(b) RECONCILIATION OF EXPECTED TAX BASED ON ACCOUNTING PROFIT/(LOSS) TO TAX CHARGE

	2015	2014	2013	2012	2011
Accounting profit/(loss) before taxation	141,595	88,170	164,277	(38,226)	212,887
Tax at applicable rate (30%)	42,479	26,451	49,283	(11,468)	63,866
Tax effect of income not taxable	(27,515)	(10,978)	(121,757)	-	-
Tax effect of expenses not deductible for tax	9,920	5,734	11,249	6,469	1,463
Prior year current tax under provision	(112)	6,647	3,025	-	-
Prior year deferred tax over provision	3,073	(1,087)	(1,503)	-	2,967
	27,845	26,767	(59,703)	(4,999)	68,296

(c) MOVEMENT IN TAXATION (RECOVERABLE)/PAYABLE

	2015	2014	2013	2012	2011
At 1 January	(39,545)	(43,451)	(37,809)	(6,815)	11,624
Paid during the year	(13,280)	(13,401)	(8,878)	(32,523)	(87,596)
Charge for the year	19,534	16,496	4,196	802	68,890
Translation difference	(1,057)	811	(960)	727	267
At 31 December	(32,234)	(39,545)	(43,451)	(37,809)	(6,815)
Comprising:					
Tax recoverable	(32,234)	(39,545)	(43,451)	(37,809)	(7,164)
Tax payable	-	-	-	-	349
	(32,234)	(39,545)	(43,451)	(37,809)	(6,815)

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

8 PROFIT/(LOSS) FOR THE YEAR

Included in the group profit/ (loss) for the years 2011 to 2015 are the company profits which have been dealt with in the financial statements of Deacons Kenya Limited. The company profits are as outlined below:

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Profit after taxation	173,928	32,680	300,539	11,612	68,477

9 DISCONTINUED OPERATIONS

(a) Disposal of business line and closure of shops

On 31 March 2013, the directors approved sale of the Woolworths business line to Woolworths (Kenya) Proprietary Limited and the sale was effected on 31 March 2013.

Identity business line which operated in two locations, at the Village market and Westgate, was closed during the year ended 31 December 2013. The Westgate shop was closed as a result of the terrorism act on 21 September 2013. The Village market shop was closed in October 2013 and was replaced with a Bossini shop. All the assets from the two shops were written off, effectively ending the Identity business line for Deacons Kenya Limited.

On 13 December 2011, the directors approved the closure of the operations of the subsidiary, Tanzania Fashion Stores Limited. The assets were therefore written down to their net realizable values as at 31 December 2011.

(b) Analysis of loss for the year from discontinued operations

The results of the discontinued operations included in the consolidated statement of comprehensive income are set out below.

The comparative profit/(loss) from discontinued operations has been re-presented to include those operations classified as discontinued in 2013 and 2011.

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Woolworths business line	-	-	6,610	127,415	94,919
Identity business line	-	-	(23,855)	245	1,870
Tanzania Fashion Stores Limited	-	-	(28,198)	(4,823)	(31,944)
Profit/(loss) for the year from discontinued operations	-	-	(45,443)	122,837	64,845

(c) Analysis of assets and liabilities of discontinued operations of Woolworths and Identity business lines and subsidairy.

At 31 December 2012, the Woolworths business line had furniture, fittings and equipment carried at Shs 119 million and inventory valued at Shs 219 million whilst Identity had furniture, fittings and equipment carried at Shs 3.7 million and inventory valued at Shs 10.5 million. Assets from the Identity business line were written off in full in the year ended 31 December 2013 whilst those relating to the Woolworths business line were partly sold and the rest written off.

At 31 December 2011, Tanzania Fashion Stores Limited, a subsidiary had total assets written down to their net realisable values amounting to Sh 38,391,000 net liabilities equivalent to Sh 120,682,000 mainly payable to group companies.

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

10. EARNINGS PER SHARE

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

	2015	2014	2013	2012	2011
Profit/(loss) from continuing operations attributable to equity holders – Shs'000	113,750	61,403	223,980	(160,887)	47,802
Loss/(profit) from discontinued operation attributable to equity holders – Shs'000	-	-	(45,443)	122,837	64,845
Weighted average number of shares used in the calculation of basic earning per share – '000	123,558	123,558	123,558	123,558	123,558
Basic and diluted earnings/(loss) per share from continuing operations – Shs	0.92	0.50	1.81	(1.30)	0.39
Basic and diluted earnings/(loss) per share from discontinued operations – Shs	-	-	(0.37)	0.99	0.52

11 FURNITURE FITTINGS AND EQUIPMENT

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
COST					
Motor vehicles	10,519	10,519	7,271	7,271	7,271
Computer equipment	85,088	51,260	50,143	58,143	55,649
Furniture, fittings and equipment	757,417	591,255	547,549	787,803	660,501
Work in progress	118,974	77,065	22,367	1,033	-
	971,998	730,099	627,330	854,251	723,421
ACCUMULATED DEPRECIATION					
Motor vehicles	6,265	4,831	5,002	4,342	3,467
Computer equipment	56,417	44,163	38,516	36,304	28,344
Furniture, fittings and equipment	268,473	213,502	166,816	222,581	157,250
	331,155	262,496	210,334	263,227	189,061
NET BOOK VALUE					
Motor vehicles	4,254	5,688	2,269	2,929	3,804
Computer equipment	28,671	7,097	11,627	21,839	27,305
Furniture, fitting and equipment	488,944	377,753	380,733	565,223	503,251
Work in progress	118,974	77,065	22,367	1,033	-
	640,843	467,603	416,996	591,024	534,360

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

12 LEASE PREPAYMENTS

	2015	2014	2013	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
COST					
At 1 January	40,011	20,871	47,640	42,456	37,918
Additions	5,942	19,140	15,190	5,184	4,538
Write offs	-	-	(34,239)	-	-
Disposals	-	-	(7,720)	-	-
Exchange differences	(1,401)	-	-	-	-
At 31 December	44,552	40,011	20,871	47,640	42,456
AMORTISATION					
At 1 January	17,986	14,780	28,219	20,427	14,069
Charge for the year	3,778	3,206	8,516	7,792	6,358
Write offs	-	-	(18,253)	-	-
Disposals	-	-	(3,702)	-	-
Exchange differences	(1)	-	-	-	-
At 31 December	21,673	17,986	14,780	28,219	20,427
NET BOOK VALUE	22,789	22,025	6,091	19,421	22,029

13 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2015	2014	2013	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
COST					
At 1 January	46,027	37,249	36,567	35,270	26,406
Additions	-	-	682	1,066	8,864
WIP allocations from PPE	50,217	8,779	-	-	-
Exchange differences	(3)	(1)	-	-	-
At 31 December	96,241	46,027	37,249	36,336	35,270
AMORTISATION					
At 1 January	37,529	33,542	30,597	18,579	9,260
Charge for the year	4,289	3,987	2,945	11,962	9,319
Exchange differences	(2)	-	-	-	-
At 31 December	41,816	37,529	33,542	30,541	18,579
NET BOOK VALUE	54,425	8,498	3,707	5,795	16,691

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

14 INVESTMENT IN ASSOCIATE

Woolworths (Kenya) Proprietary Limited:

(a) Movement

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
At 1 January	162,751	134,072	-	-	-
Acquisition during the year	-	-	119,050	-	-
Results for the year:					
Share of profit before taxation	77,124	38,702	22,515	-	-
Share of tax charge	(23,292)	(10,023)	(7,493)	-	-
	53,832	28,679	15,022	-	-
Capitalisation of loan	138,938	-	-	-	-
Disposal	(355,521)	-	-	-	-
At 31 December	-	162,751	134,072	-	-

The holding in Woolworths (Kenya) Proprietary Limited represented 49% of the issued ordinary share capital acquired in 2013 on the sale of the Woolworths business. The company is a limited liability company incorporated and domiciled in Kenya. Its principal activity is the retailing of apparel products.

The investment held in Woolworths (Kenya) Proprietary Limited was disposed off on 31 December 2015.

(b) Profit on disposal of associate:

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Proceeds of disposal	420,454	-	-	-	-
Disposal	(355,521)	-	-	-	-
At 31 December	64,933	-	-	-	-

(c) Loan to associate

	2015	2014	2013	2012	2011
At 1 January	297,735	308,151	-	-	-
Loan advanced	-	-	357,151	-	-
Interest capitalized	33,973	-	-	-	-
Repayments received in the year	(192,770)	(10,416)	(49,000)	-	-
Loan converted to shares	(138,938)	-	-	-	-
At 31 December	-	297,735	308,151	-	-

In the year 2013, Deacons Kenya Limited advanced a loan of Shs 357,150,764 to Woolworths (Kenya) Proprietary Limited as a Shareholder's loan in accordance with the terms of a shareholders' agreement entered into during the sale of Woolworths business franchise to Woolworths (Kenya) Proprietary Limited. The loan was unsecured and had no fixed term of repayment. However, repayment of the loan, or any part thereof shall be in the event the directors of the borrower reasonably believe that any repayment of the loan or part thereof can reasonably be paid by the borrower having due regard to the future cash flows of the borrower. Accordingly, the loan has not been considered as part of the net investment in the associate as required by IAS 28 as the associate is actively repaying the loan. The interest rate applicable to the loan is based on the 90 day Government of Kenya Treasury Bill rate compounded bi-annually which is added to the capital outstanding. The effective interest rate on the loan at 31 December 2014 was 8.93%.

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

15 DEFERRED TAXATION

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
The deferred taxation is attributable to the following items:					
Accelerated capital allowances	25,217	11,915	4,757	29,107	22,889
Leave pay provision	(4,602)	(3,865)	(4,404)	(8,553)	(898)
Unrealised exchange losses/(gains)	5,748	301	(5,094)	(3,119)	3,170
General provisions	(4,013)	(7,192)	(794)	(2,558)	(2,558)
Derivative liability	-	-	-	-	(7,182)
Tax losses	(56,752)	(44,413)	(48,508)	(33,505)	(24,619)
	(34,402)	(43,254)	(54,043)	(18,628)	(9,198)
The movement in the deferred tax account is as follows:					
At 1 January	(43,254)	(54,043)	(18,626)	(9,198)	(4,922)
Charge/(credit) to profits from continuing operations (note 7(a))	5,238	11,358	(62,396)	(5,801)	(3,561)
Charge to loss from discontinued operation (note 9(b))	-	-	27,883	(3,000)	(4,285)
Prior year over/(under) provision	3,073	(1,087)	(1,503)	-	2,967
Translation adjustment	541	518	599	(627)	603
At 31 December	(34,402)	(43,254)	(54,043)	(18,626)	(9,198)
Comprising:					
Deferred taxation asset	(34,402)	(43,254)	(54,043)	(34,322)	(25,973)
Deferred taxation liability	-	-	-	15,696	16,775
At 31 December	(34,402)	(43,254)	(54,043)	(18,626)	(9,198)

Tax losses relate to losses in the subsidiaries listed below. Under the Ugandan and Tanzanian tax legislations, tax losses can be carried forward to perpetuity. The tax losses in Kenya and Rwanda must be utilized within 4 to 10 years from the date the losses were incurred. The deferred tax asset relating to Tanzania Fashion Stores Limited was derecognized in the year 2013 due to the continued inactivity of the company.

Analysis of tax losses:

	2015	2014	2013	2012	2011
Deacons Kenya Limited (Shs '000)	91,252	73,147	103,143	-	-
Deacons Uganda Limited (UShs '000)	1,056,340	535,940	287,538	152,789	-
Deacons Rwanda Limited (RWF '000)	474,978	436,301	97,368	51,899	1,773
Tanzania Fashion Stores Limited (TShs '000)	1,755,367	1,757,130	1,740,517	1,730,360	1,543,473

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

16 TRADE AND OTHER RECEIVABLES

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Amounts falling due within one year:					
Trade receivables	50,884	43,262	65,274	80,015	81,400
Other receivables and prepayments	37,525	36,040	27,944	59,910	14,022
Staff advances	22,917	5,159	4,156	5,487	5,487
Due from Woolworths Holding (Mauritius) Limited	420,454	-	-	-	-
	531,780	84,461	97,374	145,412	100,909
Amounts falling due after one year:					
Other receivables and prepayments					
- rental deposits	41,204	46,157	47,336	39,905	40,877
- franchise set up costs	-	-	-	9,186	12,087
Staff advances	-	18,105	22,375	23,686	27,982
	41,204	64,262	69,711	72,777	80,946

The amounts due from Woolworths Holding (Mauritius) Limited on sale of the 49% shareholding in Woolworths (Kenya) Proprietary Limited was received on 3 February 2016 and 4 February 2016.

17 INVENTORIES

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Stock in trade	848,014	670,658	670,818	948,095	873,369
Goods in transit	83,965	42,240	73,078	18,477	57,298
	931,979	712,898	743,896	966,572	930,667

18 RELATED PARTIES

(a) Nature of related party relationship

Companies and other parties related to the group include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include companies with common directorship, management personnel, their associates and close family members.

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

18 RELATED PARTIES (Continued)

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
(b) Due from related parties					
Woolworths (Kenya) Proprietary Limited	-	-	10,477	58,405	-

(c) Remuneration of Directors and key management compensation

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
The remuneration of directors and other members of key management were as follows:					
Salaries and other benefits	82,886	65,939	53,229	56,860	52,451
Directors' remuneration:					
Fees for services as directors:					
- non executive directors	2,520	2,880	2,958	3,360	3,154
- other emoluments to executive directors	19,678	17,160	17,057	17,557	16,916
	22,198	20,040	20,015	20,917	20,070

19 DIVIDEND PAYABLE

	2015	2014	2013	2012	2011
At 1 January	-	-	-	-	-
Dividend declared	-	-	-	38,612	37,067
Dividend paid	-	-	-	(38,612)	(37,067)
At 31 December	-	-	-	-	-

	2015	2014	2013	2012	2011
PROPOSED DIVIDEND – Shs'000	61,779	-	-	-	38,612
NUMBER OF SHARES IN ISSUE – '000	123,558	123,558	123,558	123,558	123,558
DIVIDEND PER SHARE – Shs	0.50	-	-	-	0.31

The weighted average number of shares for the year ended 31 December 2011 has been adjusted to include the bonus issue of shares and the share split effected during the year ended 31 December 2012.

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

20 SHARE CAPITAL

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Authorised:					
123,600,000 of Sh 2.50 each					
(2011 32,500,000 Sh 5 each):					
At 1 January	309,000	309,000	309,000	162,500	162,500
Authorised in the year	-	-	-	146,500	-
At 31 December	309,000	309,000	309,000	309,000	162,500
Issued and fully paid:					
123,558,000 of Sh 2.50 each					
(2011 30,889,000 Sh 5 each):					
At 1 January	308,896	308,896	308,896	154,448	154,448
Issued in the year (bonus shares)	-	-	-	154,448	-
At 31 December	308,896	308,896	308,896	308,896	154,448

On 28 June 2012, the shareholders of the Company resolved to increase the authorised capital of the Company from Shs 162,500,000 divided into 32,500,000 ordinary shares of Shs 5 each to Shs 309,000,000 divided into 61,800,000 ordinary shares of Shs 5 each by the creation of 29,300,000 new ordinary shares of Shs 5 each to rank pari passu in all respects with the existing ordinary shares of the Company.

On the same date, the shareholders of the Company resolved to capitalize Sh 154,447,785 standing to the credit of the share premium at Shs 5 per share to be issued to all fully paid up shareholders in proportion to the number of ordinary shares held by them respectively in the ratio of 1 ordinary share for every 1 ordinary share of Shs 5 held on approval by the relevant regulatory authorities.

On the same date the shareholders approved a share split of each ordinary share of Shs 5 in the present capital of the company whether issued and unissued be subdivided into two ordinary shares of Shs 2.50 each. The share split was effected on 17th August 2012.

21 SHARE PREMIUM

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
At 1 January	548,803	548,803	548,803	703,251	703,251
Issued of bonus shares	-	-	-	(154,448)	-
At 31 December	548,803	548,803	548,803	548,803	703,251

The share premium arose from the issue of new share capital in 2006 and 2010.

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

22 BORROWINGS

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Bank overdraft – Barclays Bank of Kenya Limited	1,123	-	-	-	7,621
Bank overdraft – NIC Bank Limited	33,767	-	-	-	-
Bank overdraft – Bank of Africa Kenya Limited	15,066	32,192	11,928	50,074	81,522
Bank overdraft – KCB Rwanda Limited	9,736	1,660	191	22,152	3,066
Bank overdraft – Bank of Africa Uganda Limited	-	-	-	16,234	18,504
Total overdrafts	59,692	33,852	12,119	88,460	110,713
Loan – KCB Rwanda limited	26,940	34,125	40,168	-	-
Loan – Barclays Bank of Kenya Limited	-	83,333	143,333	-	-
Loan – Bank of Africa Kenya Limited	95,420	35,642	53,616	-	-
Loan – Bank of Africa Uganda Limited	31,501	46,747	64,422	74,772	18,716
Loan – NIC Bank Limited	441,226	-	-	-	-
Insurance premium finance – NIC Bank Limited	-	-	2,402	7,948	-
Total loans	595,087	199,847	303,941	82,720	18,716
	654,779	233,699	316,060	347,502	129,429
Maturity analysis:					
Repayable within one year – overdraft	59,692	33,852	12,119	88,460	110,713
Repayable within one year – bank loan	204,455	61,466	55,336	55,224	7,486
Insurance premium finance	-	-	2,402	7,948	-
Total repayable within one year	264,147	95,318	69,857	151,632	118,199
Bank loan repayable – within 2- 3 years	179,198	128,581	192,546	139,549	11,230
– within 4- 5 years	211,434	9,800	53,657	56,321	-
Total repayable after one year	390,632	138,381	246,203	195,870	11,230
	654,779	233,699	316,060	347,502	129,429
Analysis of borrowings by currency:					
Kenya Shillings	586,602	151,167	211,279	234,344	89,143
Uganda Shillings	31,501	46,747	64,422	91,006	37,220
Rwandan Francs	36,676	35,785	40,359	22,152	3,066
	654,779	233,699	316,060	347,502	129,429

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

22 BORROWINGS (Continued)

The loan and overdraft facilities with Barclays Bank of Kenya Limited were secured to the extent of Shs 493,000,000 by a debenture over all the present and future assets of Deacons Kenya Limited, Nyoya Limited and Deacons 2002 Limited. These loans were paid off during the year ended 31 December 2015 and the debentures released.

The loan and overdraft facilities with Bank of Africa is secured by deed of variation to expunge any reference to Barclays Bank of Kenya from an initial debenture over the assets of the Company for the sum of Shs 100, million, a further debenture of Shs 100 million to make an aggregate, 'all assets debenture' of Shs 200,000,000 ranking pari passu with NIC Bank Limited as well as an inter-lenders agreement between BOA Kenya and NIC Bank.

The loan and overdraft from NIC Bank Limited is secured by an all assets debenture over the company's assets registered and stamped to cover Shs 480 million, USD 570,000 and ZAR 16,100,000 to be shared on a parri passu basis with Bank of Africa Limited.

The loan and overdraft from Bank of Africa Uganda Limited is secured against a corporate guarantee from Deacons Kenya Limited for Shs 50 million.

The overdraft facility with KCB Rwanda Limited relates to banking facilities comprising overdraft, letters of credit and a term loan secured against a corporate guarantee from Deacons Kenya Limited for RWF 511.9 million. The undrawn banking facility at the close of 31 December 2015 was RWF 2.4 million.

Effective interest rates:

	2015	2014	2013	2012	2011
Bank overdraft -					
Barclays Bank of Kenya Limited	18%	18%	19%	21.5%	13.50%
Loan - Barclays Bank of Kenya Limited	18%	18%	-		-
Loan - Bank of Africa Kenya Limited	15%	-	-		-
Bank overdraft - Bank of Africa Kenya Limited	15%	14%	16%		25.26%
Bank overdraft – KCB Rwanda Limited	18.5%	18.5%	16.5%		16.50%
Bank overdraft - Bank of Africa Uganda Limited		18%	21%		19.00%
Loan - Bank of Africa Uganda Limited	26.5%	21%			19.00%
Loan – NIC Bank Limited	21%	-	-	-	-
Insurance premium finance –					
NIC Bank Limited	-	-	5.49%	7%	-

23 TRADE AND OTHER PAYABLES

	2015	2014	2013	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Trade payables	158,174	217,237	233,392	333,568	257,937
Other payables and accruals	145,484	86,337	65,243	79,465	110,250
Leave pay provision	15,341	12,883	14,681	3,416	2,995
	318,999	316,457	313,316	416,449	371,182

24 DERIVATIVE LIABILITY

Foreign currency forward contract	-	-	-	-	23,940

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

25 NOTES TO THE STATEMENTS OF CASH FLOWS

	2015	2014	2013	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
(a) Reconciliation of profit/(loss) before tax to cash generated from operations					
Profit before taxation from continuing operations	141,595	88,170	164,277	(38,226)	212,887
Loss before taxation from discontinued operations	-	-	(17,560)	(7,823)	(36,229)
	141,595	88,170	146,717	(46,049)	176,658
Adjustments for:					
Depreciation	70,812	53,532	61,351	75,102	55,619
Amortisation of lease prepayments	4,289	3,206	8,516	12,021	6,358
Amortisation of intangible assets	3,778	3,987	2,945	7,792	9,319
Loss/(gain) on disposal of equipment	(62)	(590)	81,493	1,256	4,133
Assets written off	-	429	-	-	17,942
Loss on disposal of lease prepayments		-	-	15,986	-
Interest on borrowings	79,405	60,273	84,829	70,639	22,965
Share of profit from associate	(53,832)	(28,679)	(15,022)	-	-
Profit from sale of associate	(64,933)	-	-	-	-
Interest receivable from associate capitalised	33,973	-	-	-	-
Loss on foreign currency forward contract	-	-	-	(23,940)	23,940
Working capital changes;					
- Inventories	(219,081)	30,998	222,676	(35,905)	(384,819)
- Trade and other receivables	(424,261)	18,362	51,104	(36,334)	(93,029)
- Due from related parties	10,477	47,928	(58,405)	-	-
- Trade and other payables	2,542	3,141	(103,133)	45,267	207,440
Cash (used in)/generated from operations	(483,244)	280,757	499,057	69,849	46,526
(b) Analysis of the balances of cash and cash equivalents					
Bank balances	193,996	45,886	41,924	78,940	77,275
Cash balances	2,420	2,487	5,228	1,867	1,699
Bank and cash balances	196,416	48,373	47,152	80,807	78,974
Bank overdraft	(59,692)	(33,852)	(12,119)	(88,460)	(110,713)
	136,724	14,521	35,033	(7,653)	(31,739)

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the group's risk management framework.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing on the return to the group.

(i) Price risk

The group and company do not hold investments that would be subject to price risk; hence this risk is not applicable.

(ii) Interest rate risk

Interest rate risk is the risk that the future profitability and/or cash flows from financial instruments will fluctuate because of changes in the market interest rates.

The group is exposed to various risks associated with the effects of fluctuations in the prevailing rates of market interest rates. Interest margin may increase as a result of changes in the prevailing levels of base rates applied by the group's bankers, NIC Bank Limited, Barclays Bank of Kenya Limited (BBK), KCB Rwanda Limited, Bank of Africa Uganda Limited and Bank of Africa Kenya Limited, based on lending covenants entered into with the group.

In each of the periods covered by this report, if the interest rates increased/decreased by 2 percentage points, with all other variables held constant, the sensitized effect on comprehensive income would have been as follows:

Sensitivity of borrowings to changes in interest rates:

	+2% Profit (loss) (Shs'000)	Fair value of outstanding Profit (loss) (Shs'000)	-2% Profit (loss) (Shs'000)
31 December 2015	(4,970)	654,779	4,970
30 December 2014	(1,240)	233,699	1,240
31 December 2013	(1,695)	316,060	1,695
31 December 2012	(1,412)	347,502	1,412
31 December 2011	(452)	129,429	452

The group has no interest bearing assets.

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Market risk (Continued)

(iii) Foreign currency exchange risk

The group records transactions in foreign currencies at the rates in effect at the date of the transaction. It retranslates monetary assets and liabilities denominated in foreign currencies at the rates of exchange in effect at the statement of financial position date. All the gains or losses arising from the changes in the currency exchange rates are accounted for in the statement of comprehensive income.

Management of fluctuations in exchange rates is done through forward currency contracts at 60% of pending invoices.

At the end of each period, if the South African Rand, US dollar and Sterling Pound had strengthened/weakened by 10% respectively against the Shilling, with all other variables held constant, the sensitized effect on comprehensive income would have been as follows:

	+10% Profit (loss) (Shs'000)	Fair value of outstanding Profit (loss) (Shs'000)	-10% Profit (loss) (Shs'000)
31 December 2015	(17,053)	170,534	17,053
30 December 2014	(15,450)	154,509	15,450
31 December 2013	(6,502)	65,021	6,502
31 December 2012	(16,007)	160,067	16,007
31 December 2011	(9,834)	98,344	9,834

Below is a summary of the foreign currency denominated financial assets and liabilities at their carrying amounts.

	ZAR Shs'000	USD Shs'000	GBP Shs'000	Total Shs'000
At 31 December 2015				
FINANCIAL LIABILITIES				
Bank overdrafts	(96)	(951)	(13,212)	(14,259)
Trade payables	(72,703)	(81,060)	(2,512)	(156,275)
Net foreign currency exposure	(72,799)	(82,011)	(15,724)	(170,534)
At 31 December 2014				
FINANCIAL ASSETS				
Bank balances	3,336	57	262	3,655
FINANCIAL LIABILITIES				
Trade payables	(134,995)	(20,019)	(3,150)	(158,164)
Net foreign currency exposure	(131,659)	(19,962)	(2,888)	(154,509)

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Market risk (Continued)

(iii)Foreign currency exchange risk (Continued)

	ZAR Shs'000	USD Shs'000	GBP Shs'000	Total Shs'000
At 31 December 2013				
FINANCIAL ASSETS				
Bank balances	31,291	743	156	32,190
FINANCIAL LIABILITIES				
Trade payables	(70,293)	(22,031)	(4,887)	(97,211)
Net foreign currency exposure	(39,002)	(21,288)	(4,731)	(65,021)
At 31 December 2012				
FINANCIAL ASSETS				
Bank balances	397	-	-	397
FINANCIAL LIABILITIES				
Trade payables	(144,905)	(8,471)	(7,071)	(160,447)
Bank overdraft	-	(17)	-	(17)
	(144,905)	(8,488)	(7,071)	(160,464)
Net foreign currency exposure	(144,508)	(8,488)	(7,071)	(160,067)
At 31 December 2011				
FINANCIAL ASSETS				
Bank balances	13,205	466	2,071	15,742
FINANCIAL LIABILITIES				
Trade payables	(103,035)	(6,003)	(5,028)	(114,066)
Bank overdraft	-	(20)	-	(20)
	(103,035)	(6,023)	(5,028)	(114,086)
Net foreign currency exposure	(89,830)	(5,557)	(2,957)	(98,344)

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(b) Credit risk

The group has exposure to credit risk, which is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the trading activities as well as placements and balances with other counterparties. The credit control function assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. In addition, receivable balances are monitored on an on-going basis which minimizes the group's exposure to bad debts. The Board of Directors has the responsibility of managing the group's credit risk.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas thereby reducing concentration risk. The bulk of the group sales are transacted in cash or by credit card, which significantly reduces the exposure to credit risk. For credit sales, management assesses the credit quality of each customer, taking into account their financial position, past experience and other factors.

The amount that best represents the group's maximum exposure to the credit risk at the end of each reporting period is made up as follows:

	Fully performing	Past due	Impaired	Total
	Shs'000	Shs'000	Shs'000	Shs'000
31 December 2015				
Trade receivables	49,908	976	-	50,884
Bank balances	193,996	-	-	193,996
	243,904	976	-	244,880
31 December 2014				
Trade receivables	43,262	-	-	43,262
Bank balances	46,019	-	-	46,019
Due from related parties	10,477	-	-	10,477
Loan to associate	297,735	-	-	297,735
	397,493	-	-	397,493
31 December 2013				
Trade receivables	65,274	-	-	65,274
Bank balances	41,924	-	-	41,924
Due from related parties	58,405	-	-	58,405
Loan to associate	308,151	-	-	308,151
	473,754	-	-	473,754
31 December 2012				
Trade receivables	80,015	-	-	80,015
Bank balances	78,940	-	-	78,940
	158,955	-	-	158,955

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(b) Credit risk (Continued)

	Fully performing Shs'000	Past due Shs'000	Impaired Shs'000	Total Shs'000
31 December 2011				
Trade receivables	81,400	-	53	81,453
Bank balances	77,275	-	-	77,275
	158,675	-	53	158,728

(c) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting obligations related to its financial liabilities.

The group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions. In this respect the nature of the group business is such that it operates a cash business continuously turns inventory into cash over relatively short periods.

The following table analyses the group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

	Less than 1 month Shs'000	1 – 3 months Shs'000	3-12 months Shs'000	Over 12 months Shs'000	Total Shs'000
At 31 December 2015					
Financial assets					
Trade receivables	26,905	7,840	16,139	-	50,884
Bank balances	192,875	-	-	-	192,875
Total financial assets	219,780	7,840	16,139	-	243,759
Financial liabilities					
Trade payables	13,462	59,572	85,140	-	158,174
Borrowings	104,371	25,608	134,168	390,632	654,779
Total financial liabilities	117,833	85,180	219,308	390,632	654,779
Net liquidity gap	**101,947**	**(77,340)**	**(203,169)**	**(390,632)**	**(569,194)**

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(c) Liquidity risk (Continued)

	Less than 1 month Shs'000	1 – 3 months Shs'000	3-12 months Shs'000	Over 12 months Shs'000	Total Shs'000
At 31 December 2014					
Financial assets					
Trade receivables	2,250	7,623	33,389	-	43,262
Related party receivables	-	-	10,477	-	10,477
Loan to associate	-	-	297,735	-	297,735
Bank balances	46,019	-	-	-	46,019
Total financial assets	48,269	7,623	341,601	-	397,493
Financial liabilities					
Trade payables	18,149	37,136	161,952	-	217,237
Borrowings	33,852	15,366	46,100	138,381	233,699
Total financial liabilities	52,001	52,502	208,052	138,381	450,936
Net liquidity gap	(3,732)	(44,879)	133,549	(138,381)	(53,443)
At 31 December 2013					
Financial assets					
Trade receivables	5,440	10,880	48,954	-	65,274
Related party receivables	-	-	58,405	-	58,405
Loan to associate	-	-	308,151	-	308,151
Bank balances	815	7,742	33,367	-	41,924
Total financial assets	6,255	18,622	448,877	-	473,754
Financial liabilities					
Trade payables	19,449	38,898	175,045	-	233,392
Borrowings	26,461	44,869	-	244,730	316,060
Total financial liabilities	45,910	83,767	175,045	244,730	549,452
Net liquidity gap	**(39,655)**	**(65,145)**	**273,832**	**(244,730)**	**(75,698)**

15 REPORTING ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(c) Liquidity risk (Continued)

	Less than 1 month Shs'000	1 – 3 months Shs'000	3-12 months Shs'000	Over 12 months Shs'000	Total Shs'000
At 31 December 2012					
Financial assets					
Trade receivables	41,238	2,602	7,806	28,369	80,015
Bank balances	78,940	-	-	-	78,940
Total financial assets	120,178	2,602	7,806	28,369	158,955
Financial liabilities					
Trade payables	151,771	153,671	28,125	-	333,568
Borrowings	3,205	9,616	28,849	287,951	329,621
Total financial liabilities	154,976	163,287	56,974	287,951	495,118
Net liquidity gap	(34,798)	(160,685)	(49,168)	(259,582)	(504,234)
At 31 December 2011					
Financial assets					
Trade receivables	81,400	-	-	-	81,400
Bank balances	77,275	-	-	-	77,275
Total financial assets	158,675	-	-	-	158,675
Financial liabilities					
Trade payables	257,937	-	-	-	257,937
Borrowings	112,584	1,872	3,743	11,230	129,429
Total financial liabilities	370,521	1,872	3,743	11,230	387,366
Net liquidity gap	**(211,846)**	**(1,872)**	**(3,743)**	**(11,230)**	**(228,691)**

15 REPORTING ACCOUNTANTS' REPORT

27 CAPITAL RISK MANAGEMENT

The primary objectives of the group's capital management are to ensure that the group complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the parameters determined by the directors.

The group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The group's capital and gearing a**re presented below:**

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Share capital	308,896	308,896	308,896	308,896	154,448
Share premium	548,803	548,803	548,803	548,803	703,251
Revenue reserve	674,909	561,159	499,756	321,219	397,881
Translation reserve	(20,314)	(7,132)	(3,782)	(4,451)	458
Equity	1,512,294	1,411,726	1,353,673	1,174,467	1,256,038
Borrowings	654,779	233,699	316,060	347,502	129,429
Less bank and cash balances	(196,416)	(48,373)	(47,152)	(80,807)	(78,974)
Net borrowings	458,363	185,326	268,908	266,695	50,455
Gearing	30%	13%	20%	23%	4.02%

28 OPERATING LEASE COMMITMENTS

The total future minimum lease payments due to third parties under non-cancellable operating leases relating to retail outlets, offices and car rental are as follows:

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Within 1 year	244,043	31,296	217,800	194,280	212,724
Within 2 to 3 years	404,115	140,157	254,716	364,669	424,886
Within 3 to 5 years	435,623	352,218	280,188	266,116	301,695
Over 5 years	124,393	611,978	308,206	474,940	562,725
	1,208,174	1,135,649	1,060,910	1,300,005	1,502,030

15 REPORTING ACCOUNTANTS' REPORT

29 CAPITAL COMMITMENTS

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Within 1 year	248,725	19,507	111,500	62,736	128,800

30 CONTINGENT LIABILITIES

The group has exposure to banks who have issued stand-by letters of credit in favour of key suppliers aggregating in total to South African Rands 25 Million and United States Dollars 550,000 all totalling to an amount equivalent to Shs 225 Million (2014 - stand-by letters of credit in favour of key suppliers aggregating in total to Rands 10 million and US$ 411,300 all totalling to an amount equivalent to Shs 118 million, 2013 - stand-by letters of credit in favour of key suppliers aggregating in total to Rands 8,500,000, Shs11,477,040 and US$ 411,300 equivalent to Shs 138,934,959, 2012 - stand-by letters of credit in favour of key suppliers aggregating in total to South African Rands 14,452,941 and US$ 400,000 equivalent to Shs 180,962,816 and 2011 - stand-by letters of credit in favour of key suppliers aggregating in total to South African Rands 11,952,000 and US$ 100,000 equivalent to Shs 132,090,680).

31 CURRENCY

The consolidated financial statements are presented in Kenya Shillings thousands (Shs'000).

M. CONSENT

We consent to the inclusion of our report in this Information Memorandum in the form and context in which it appears.

N. CONCLUSION

The financial information set out in this Accountants' Report has been extracted from the audited financial statements of the company for the 5 years ended 31 December 2015. For each of the relevant periods, unqualified audit reports were issued. Based on our review, nothing has come to our attention that causes us to believe that the financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Yours faithfully

Deloitte & Touche

Deloitte.

Certified Public Accountants (Kenya)
Nairobi

CH Coulson Harney
ADVOCATES

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Our Reference:	6155725	Your Reference:	
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The Directors

Deacons (East Africa) PLC

Norfolk Towers

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NAIROBI-00100

Kenya

Dear Sirs

Opinion under Regulation 6(3) (b) of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 (the "Regulations") for the Listing by Introduction of the entire issued share capital of up to 123,558,228 issued Ordinary Shares of KES 2.50 each of Deacons (East Africa) PLC ("Deacons") on the Alternative Investment Market Segment of the Nairobi Securities Exchange (the "Listing") and issue of Information Memorandum.

We have acted as legal advisers to Deacons in relation to the Listing. We, Coulson Harney, Advocates, are a firm of Advocates of the High Court of Kenya, practicing and qualified as such to practice in Kenya, and to advice upon the laws of Kenya. Unless otherwise stated or the context otherwise requires, words and terms defined in the Information Memorandum ("the Information Memorandum") dated 13th July 2016 in relation to the Listing bear the same meaning in this Opinion.

1. DOCUMENTS

For this Opinion, we have examined all corporate records of Deacons, this Information Memorandum; and such other records and documents as we have considered necessary and appropriate for the purposes of this Opinion.

2. ASSUMPTIONS

For the purposes of this opinion, we have assumed:

2.1 Accuracy of information supplied

All written information availed to us by Deacons and by its officers and advisers is true, accurate and up to date.

2.2 Authenticity of copies

The authenticity of documents submitted as originals, the conformity with the original documents of all documents submitted as copies and the authenticity of the originals of such latter documents.

2.3 Signatures

The genuineness of all signatures on all documents.

2.4 Due execution by other parties

All agreements and other relevant documents have been duly authorised, executed and delivered by the parties to those documents.

2.5 Factual matters

With respect to matters of fact, we have relied on the representations of Deacons and its officers and advisers.

3. OPINION

In accordance with Regulation 6(3)(b) of the Regulations, and based on the information made available to us by Deacons and subject to (i) the foregoing; (ii) section 2 of this Opinion; (iii) any matters set out in the Information Memorandum; (iv) the reservations set out below; and (v) any matters not disclosed to us:

3.1 Status

Deacons is a company limited by shares, duly incorporated in Kenya pursuant to the provisions of the Companies Act (Cap 486 of the Laws of Kenya (now repealed)), with power to execute, deliver and exercise its rights and perform its obligations pursuant to the Listing, and such execution, delivery and performance have been duly authorised by appropriate corporate action;

3.2 Share capital

The existing share capital of Deacons has been authorised and issued in conformity with all applicable laws and has received all necessary authorisations;

3.3 Authorisations

All authorisations, approvals, consents, licences, exemptions, filings or registrations of or with any governmental or public bodies or authorities of or in Kenya required in connection with the Listing have been obtained in proper form and are in full force and effect;

3.4 Statutory Books

Deacons continues to maintain its statutory books at its registered office;

3.5 Licenses

All licenses, authorisations, approvals, consents, exemptions, filings or registrations of or with any governmental or public body or authority in Kenya required in connection with the business of Deacons have been duly obtained in proper form and are in full force and effect;

3.6 Assets

Deacons has valid ownership of all material assets.

With regard to immoveable properties leased by Deacons and its subsidiaries, based on information provided to us by Deacons, Deacons has entered into written agreements in respect of its leased premises in various shopping and business complexes in Kenya, Uganda and Rwanda.

3.7 Material Contracts

Save for the contracts disclosed in the Information Memorandum at section 14, Deacons has not entered into any material contracts (being contracts entered into which are not in the ordinary course of the business or a contract entered into more than two years before the date of the Information Memorandum) and there is no other agreement or arrangement concerning the Listing.

3.8 Material Litigation

There is no material litigation or arbitration, prosecution or other civil or criminal legal action in which Deacons or its Directors as Directors of Deacons, are involved or any other material claims against Deacons that could result in a dispute to be resolved by arbitration or litigation; and

3.9 Listing

There are no shares to be issued in connection with the Listing. Deacons has not entered into any underwriting agreement or any other agreement or contract in respect of the Listing other than the appointments of the transaction advisers. Deacons, through the sponsoring stockbroker, has applied to, and permission has been duly granted by, the Capital Markets Authority in respect of the NSE Listing pursuant to the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations 2002.

Subject to the above, we are of the opinion that there are no other material items not mentioned in the Information Memorandum of which we are aware with regard to the legal status of Deacons and the Listing.

4. RESERVATIONS

This letter and the opinions given in it are governed by Kenyan law and relate only to Kenyan law as applied by the Kenyan courts as at today's date. We express no opinion in this letter on the laws of any other jurisdiction.

CH Coulson Harney
ADVOCATES

We as the legal advisers confirm that we have given and have not, prior to the date of the Information Memorandum, withdrawn our written consent to the inclusion of the legal opinion in the form and context in which it appears.

Yours faithfully

Coulson Harney

COULSON HARNEY

17 CORPORATE GOVERNANCE CHECKLIST CAPITAL MARKETS (SECURITIES) (PUBLIC OFFERS, LISTING AND DISCLOSURES) (AMENDMENT) REGULATIONS, 2016

		Provisions	Company's Status	Compliance
1	Composition of Board members	The issuer shall have a board of directors comprising a balance of executive and non-executive members, with a majority of non-executive directors who, together with the independent directors shall comprise at least one third of the total number of board members.	The majority of the directors are non-executive directors who together with the independent directors comprise more than a third of the total number of board members.	Compliant
2	No. of Board members	The issuer shall have a board of at least five directors, comprising of executive and non-executive members, with a majority non-executive directors who, together with the independent directors shall comprise at least one third of the total number of board members.	The Board comprises of 1 (One) executive director and Five (5) non-executive directors.	Compliant
3	Financial Statements	The board shall state in the company's annual report its responsibility for preparing the annual report and accounts, which shall include a statement by the auditor on the auditor's reporting responsibilities.	The statement of Directors' and Auditors Responsibilities and Auditor Report are included in the Financial Statements every year.	Compliant
4	Corporate Governance Statement	Every issuer shall disclose in its annual report, a statement of the directors as to whether the issuer is applying the recommended corporate governance practices stipulated in the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 issued by the Authority: provided that where the issuer has not fully applied the recommended corporate governance practices, the directors shall indicate the steps being taken to ensure the application of such practices.	This will be indicated in the Financial Statements for the year ending 31 December 2016 since the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, was gazetted on 04 March 2016.	Noted
5	Skills of Board Members	The Board shall have an appropriate balance of skills, experience, independence and knowledge of the Company to enable the Board to operate effectively.	The Board is made up of 1 (One) executive director and Five (5) non-executive directors who have diverse skills, experience, independence and knowledge of the Company.	Compliant

17 CORPORATE GOVERNANCE CHECKLIST CAPITAL MARKETS (SECURITIES) (PUBLIC OFFERS, LISTING AND DISCLOSURES) (AMENDMENT) REGULATIONS, 2016

		Provisions	Company's Status	Compliance
6	Appointment of Board members	The Board shall have transparent and documented procedures for the appointment of successive Boards to ensure smooth transition.	Board members are appointed through the Nominations Committee of the Board.	Compliant
7	Functions of the Board and Management	The Board shall establish separate functions for itself and the Management.	The functions of the Board and Management are well defined in the Board Charter of the Company and there is clear delegation of authority.	Compliant
8	Board Independence	The Board shall establish policies to ensure that directors of the Board are independent.	These policies are outlined in the Board Charter of the Company.	Compliant
9	Board Charter	The Board shall establish, periodically review and publicise the Board Charter on the Company's website.	The Board has developed a Board Charter which summarises the roles and responsibilities of the Board and comments on the Board's approach to corporate governance.	Compliant
10	Annual Evaluation of the Board, Chairperson, CEO and Company Secretary	The board of an issuer shall on an annual basis, evaluate its performance, the performance of its chairperson, the Chief Executive Officer and the company secretary.	The Board will begin carrying out annual evaluations of the Board, the Chairperson and the Company Secretary in 2016.	Not compliant
11	Board Committees	The Board of the issuer shall: a) establish relevant committees to discharge its mandate including internal audit, risk management, remuneration, board nominations, finance, investments and governance;	The Company has established the following Board Committees: 1) Board Audit Committee; 2) Board Strategy & Investment Committee; 3) Board Remuneration Committee; 4) Board Nomination Committee	Compliant
		b) formulate the terms of reference, duties and authority of each committee;	Each Committee has its own Terms of Reference indicating duties and authority of the respective Committees.	Compliant
		c) ensure that the committees are constituted with directors who have the necessary skills and expertise to handle the responsibilities allocated to the committees;	The directors in the respective committees have the necessary skills and expertise to handle the responsibilities allocated to the committees.	Compliant

17 CORPORATE GOVERNANCE CHECKLIST CAPITAL MARKETS (SECURITIES) (PUBLIC OFFERS, LISTING AND DISCLOSURES) (AMENDMENT) REGULATIONS, 2016

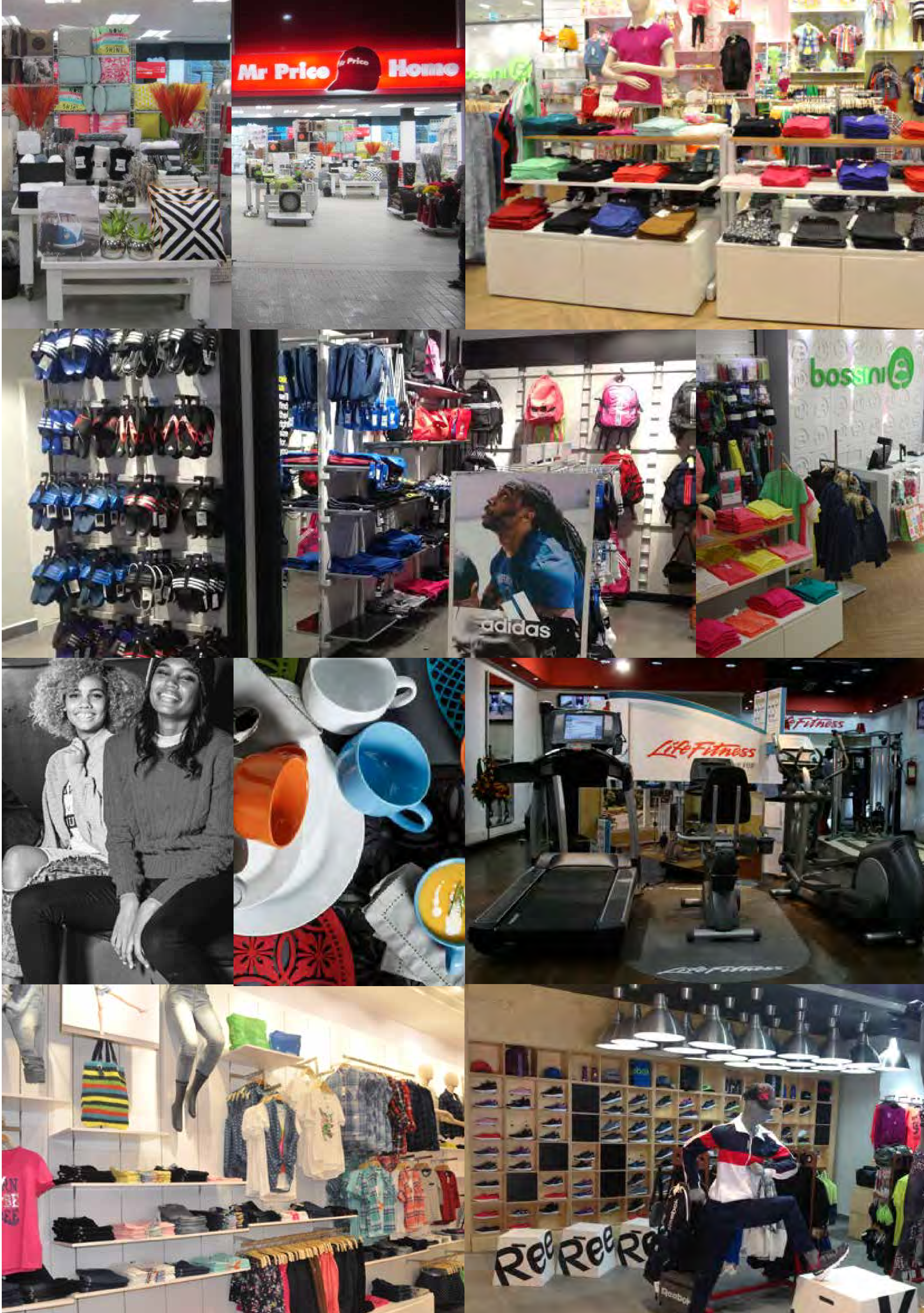
		Provisions	Company's Status	Compliance
		d) appoint chairpersons of the committees;	All the Board Committees have a chairperson.	Compliant
		e) determine the procedure and process within which the committees may be allowed to engage independent professional advice at the company's expense; and	This is provided for in the Terms of Reference of each Board Committee.	Compliant
		f) review the effectiveness and performance of the committees on an annual basis	.Going forward, the Committees will review their effectiveness and performance annually starting 2017.	Not Compliant Starting 01 January 2017
12	Nomination Committee	1) A nomination committee shall consist of at least three independent directors.	The Committee membership consists of the CEO and two (2) independent directors.	Not Compliant – To recommend a replacement for the CEO from 01 October 2016
		2) The chairperson of the nomination committee shall be an independent director.	The Chairperson is an independent director.	Compliant
13	Audit Committee	1) An audit committee shall consist of at least three independent directors.	The Audit Committee membership comprises of two (2) independent directors.	Not compliant – Because the Company has a board of 6 members. One (1) Director will be added from 01 January 2017.
		2) The chairperson of the audit committee shall be an independent director.	The Chairperson is independent.	Compliant
		3) The board shall ensure that at least one of the members of the audit committee holds a professional qualification in audit or accounting and be in good standing with the applicable professional body.	The Chairman of the Audit Committee meets this requirement.	Compliant
		4) An Alternate Director shall not be appointed as a member of the Audit Committee.	There is no alternate director in this Committee.	Compliant

17 CORPORATE GOVERNANCE CHECKLIST CAPITAL MARKETS (SECURITIES) (PUBLIC OFFERS, LISTING AND DISCLOSURES) (AMENDMENT) REGULATIONS, 2016

		Provisions	Company's Status	Compliance
14	Public Disclosures	There shall be public disclosure in respect of any management or business agreements entered into between the issuer and its related companies.	The Company is always in compliance with the continuing obligations for issuers, which are stipulated in the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations 2002.	Compliant
15	Directorship in Public Listed Companies	Every person except a corporate director who is a director of a public listed company shall not hold such position in more than three public listed companies at any one time and in the case where the corporate director has appointed an alternate director, the appointment of such alternate shall be restricted to two public listed companies.	None of the directors of the Company is a director in more than three public listed companies.	Compliant
16	Executive Directorship in Public Listed Companies	An executive director of a public listed company shall not hold such position in more than two public listed companies at any one time	The Chief Executive Officer is the only Executive Director in the Company and he is not an Executive Director in any other public listed company.	Compliant
17	Chairperson	The chairperson of a public listed company shall be independent and shall not hold such position in more than two public listed companies at any one time:	The Chairperson is independent and does not hold chairmanship in more than two public listed companies.	Compliant
18	Roles of the Chief Executive Officer and the Chairman	The roles of chairperson and the chief executive officer shall not be exercised by the same person.	The roles of the Chairman and the Chief Executive are distinct and are performed by different persons.	Compliant
19	Succession Plan	Every public listed company shall have a succession plan for its chairperson, Chief Executive Officer and employees.	The Organogram of the Company has addressed the succession planning for the CEO as the CFAO and Retail Director deputise the CEO and attend all Board meetings.	Not compliant for the Chairperson

17 CORPORATE GOVERNANCE CHECKLIST CAPITAL MARKETS (SECURITIES) (PUBLIC OFFERS, LISTING AND DISCLOSURES) (AMENDMENT) REGULATIONS, 2016

		Provisions	Company's Status	Compliance
20	Chief Financial Officers	The chief financial officers and persons heading the accounting department of every issuer shall be members of the Institute of Certified Public Accountants, Kenya established under the Accountants Act.	The Board has agreed that the serving CFO will seek certification in the next 18 months.	Not Compliant.
21	Company Secretary	The board of every issuer shall be assisted by a company secretary who shall be a member of the Institute of Certified Public Secretaries of Kenya established under the Certified Public Secretaries of Kenya Act.	The Company has a Secretary who is a member of the Institute of Certified Public Secretaries of Kenya.	Compliant
22	Policies and Procedures	Every issuer shall establish formal and transparent policies and procedures, which shall be approved by shareholders for:		Compliant
23	Auditors	The Board of the issuer shall ensure that the shareholders appoint independent auditors at each Annual General Meeting (AGM)	The Auditors are appointed by the Shareholders at every Annual General Meeting.	Compliant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