Gapco Kenya Limited

Independent Auditor's Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GAPCO KENYA LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Gapco Kenya Limited, set out on pages 7 to 32, which comprise the statement of financial position as at 31 December 2014, and the statement of profit of loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2014 and of its profit and cash flows for the year than ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

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

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

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

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

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Fred Okwirip/No 1699.

Certified Public Accountants (Kenya)
Nairobi

Date: 24th March, 2015

Statement of profit or loss and other comprehensive income for the year ended 31 December, 2014

	Note	2014 Kshs'000	2013 Kshs'000
INCOME	**2**	**184,983,138**	138,162,371
COST OF SALES		**(183,418,956)**	(137,392,625)
GROSS PROFIT		**1,564.182**	769,746
OTHER OPERATING INCOME	**3**	**242,029**	211,031
		1,806,211	980,777
EXPENSES:-			
Administrative expenses	**4**	**(447,469)**	(559,256)
Other operating expenses	**5**	**(379,135)**	(327,319)
PROFIT FROM OPERATING ACTIVITIES		**979,607**	94,202
FINANCE COSTS	**6**	**(20,473)**	(17,321)
PROFIT BEFORE TAX	**7**	**959,134**	76,881
TAX	**8**	**(319,754)**	(26,301)
PROFIT FOR THE YEAR		**639,380**	50,580
OTHER COMREHENSIVE INCONE:-			
Revaluation of property, plant and equipment		**0**	2,396,775
Income tax effect		**0**	(446,821)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**639,380**	2,000,534

Statement of Financial Position as at 31 December, 2014

	Note	2014 Kshs'000	2013 Kshs'000
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	9	**6,528,358**	7,049,480
CURRENT ASSETS			
Inventories	10	**13,423,595**	23,842,438
Trade and other receivables	11	**1,339,938**	2,184,408
Cash and cash equivalents	18	**787,955**	1,181,188
Tax recoverable	8	**0**	202,044
		15,551,488	27,410,078
TOTAL ASSETS		**22,079,846**	34,459,558
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	**1,459,540**	1,459,540
Share premium	12	**502,551**	502,551
Revaluation reserve	13	**3,082,329**	3,373,895
Retained earnings		**2,670,250**	1,739,304
		7,714,670	7,075,290
NON CURRENT LIABILITIES			
Retirement benefit obligations	14	**6,944**	12,344
Deferred tax	15	**1,235,794**	1,254,983
Unsecured Loan1	16	**1,288,819**	0
		2,531,557	1,267,327
CURRENT LIABILITIES			
Trade and other payables	17	**11,703,161**	26,116,941
Tax payable	8	**130,458**	0
		11,833,619	26,116,941
TOTAL EQUITY AND LIABILITIES		**22,079,846**	34,459,558

The financial statements on pages 8 to 32 were authorised for issue by the Board of Directorson__________________2015 and were signed on its behalf by:

DIRECTOR DIRECTOR

Statement of changes in equity for the year ended 31 December, 2014

	Notes	Share capital Kshs'000	Revaluation reserve Kshs'000	Share premium Kshs'000	Retained earnings Kshs'000	Total Kshs'000
YEAR ENDED 31 DECEMBER 2013						
At start of year		1,459,540	1,495,549	502,551	1,617,116	5,074,756
Transfer of excess depreciation on property, plant and equipment	**13**	-	(102,252)	-	102,252	-
Deferred tax on transfer of excess Transfer to retained earnings from revaluation reserve on disposal of property, plant and equipment			2,396,775			2,396,775
Deferred tax on above			(446,821)			(446,821)
Deferred tax on transfer of excess depreciation	**15**	-	30,644	-	30,644	-
Profit for the year		-	-	-	50,580	50,580
At end of year		1,459,540	3,373,895	502,551	1,739,304	7,075,290
YEAR ENDED 31 DECEMBER 2014						
At start of year		1,459,540	3,373,895	502,551	1,739,304	7,075,290
Transfer of excess depreciation property, plant and equipment		-	(109,724)		109,724	0
Transfer to retained earnings from revaluation reserve on disposal of property, plant and equipment		-	(203,307)	-	203,307	0
Deferred tax on above						
Deferred tax on transfer of excess depreciation	15	-	21,465		(21,465)	0
Profit for the year		-	-		639,380	639,380
At end of year		1,459,540	3,082,329	502,551	2,670,250	7,714,670

Statement of Cash Flows for the year ended 31 December, 2014

	Note	2014 KShs'000	2013 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	**7**	**959,134**	76,881
Adjustments for:-			
Depreciation on property, plant and equipment	**9**	**292,950**	241,410
Loss/(gain) on disposal of property, plant and equipment	**3/5**	**(7,731)**	(1,066)
Interest expense	**6**	**20,473**	17,321
Interest income	**3**	**(49,095)**	(38,063)
Unrealised exchange (gain)/loss		**(76,687)**	16,235
(Decrease)/Increase in retirement benefits obligations and leave pay	**14**	**(5,400)**	3,279
Operating profit before working capital changes:-		**1,133,644**	315,997
Trade and other receivables	**11**	**844,470**	907,705
Inventories	**10**	**10,418,843**	(4,128,413)
Unsecured Loan		**1,288,819**	
Trade and other payables	**17**	**(14,413,779)**	3,085,858
Cash from operations		**(728,005)**	181,147
Interest paid	**6**	**(20,473)**	(17,321)
Interest earned	**3**	**(49,095)**	38,063
Tax paid	**8(c)**	**(6,441)**	(2,235)
Net cash flows from operating activities		**(705,823)**	199,654
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	**9**	**(15,135)**	(30,441)
Proceeds from disposal of property and equipment		**251,038**	1,388
Net cash flows used in investing activities		**235,903**	(29,053)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**469,920**	170,601
Movement in cash and cash equivalents			
At start of year		**1,181,188**	1,026,822
Increase		**(469,920)**	170,604
Effect of exchange rate changes	**4**	**76,687**	(16,235)
At end of year	**17**	**787,955**	1,181,188

Notes to the Financial Statements for the year ended 31 December, 2014

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared on the historical cost basis in accordance with and comply with International Financial Reporting Standards (IFRS), as modified by the revaluation of certain items of property, plant and equipment in the statement of financial position.

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

(b) New and amended standards, interpretations and improvements

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2014.

- IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IAS 19 Employee Benefits (Revised 2011)
- IAS 28 Investment in Associate and Joint Ventures (revised)
- IAS 16 Property, Plant and Equipment — Classification of servicing equipment
- IAS 32 Financial Instruments: Presentation — Tax effects of distributions to holders of equity instruments
- IAS 34 Interim Financial Reporting — Interim financial reporting and segment information for total assets and liabilities

These revised standards and interpretations did not have any material effect on the financial performance or position of the company. They did, however, give rise to additional disclosures in some occasions.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

This standard became effective from 1 January 2013. It creates a new, broader definition of control than under current IAS 27. It does not change the consolidation process; rather it changes whether an entity is consolidated by revising the definition of control. The revised definition of control will require consideration of aspects such as de-facto control, substantive vs. protective rights, agency relationships, silo accounting and structured entities when evaluating whether or not an entity is controlled by the investor. The amendment has no effect on the company’s financial position, performance or its disclosures

IAS 27 separate financial statements (revised)

It is limited to the accounting for investment in subsidiaries, joint ventures and associates in the separate financial statements of the reporter. The amendment will have no impact on the company as the company does not have any investments in subsidiaries, associates and interests in joint ventures.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

It replaces IAS 31 and refers to IFRS 10 new definition of control when referring to joint control. A joint arrangement previously known as a joint venture under IAS 31 is accounted for either as

- a joint operation – by showing the investors interest/relative interest in the assets, liabilities, revenue and expenses of the joint arrangement
- Joint venture – by applying the equity method of accounting. Proportionate method is no longer required.

Notes to the Financial Statements for the year ended 31 December, 2014

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) New and amended standards, interpretations and improvements *(continued)*

Under IFRS 11 the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or joint venture. The amendment will have no impact on the company as the company does not have any investments in associates and interests in joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The amendment has no effect on the company's financial position, performance or its disclosures.

IFRS 13 Fair Value Measurement

It becomes effective as and from 1st January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the company. IFRS 13 requires an entity to disclose additional information that helps users of its financial statements assess both of the following:

- for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements
- for fair value measurements using significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income for the period.

The amendment has no effect on the company's financial position, performance or its disclosures.

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

This became effective from 1 July 2012. The amendments to IAS 1 require an allocation of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the company's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the company's 2013 financial year), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the company has not included comparative information in respect of the opening statement of financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the company's financial position or performance.

IAS 19 Employee Benefits (Revised)

The 'corridor approach' currently allowed as an alternative basis in IAS 19 for the recognition of actuarial gains and losses on defined benefit plans has been removed. Actuarial gains and losses in respect of defined benefit plans are now recognised in OCI when they occur. For defined benefit plans, the amounts recorded in profit or loss are limited to current and past service costs, gains and losses on non-routine settlements and interest income/ expense. The distinction between short-term and other long term benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits. In many instances this is expected to have a significant impact on the manner in which leave pay and similar liabilities are currently classified. The revised standard has no impact on the company's financial position or performance.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36

Notes to the Financial Statements for the year ended 31 December, 2014

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

(b) New and amended standards, interpretations and improvements ***(continued)***

The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment.

IAS 16 Property Plant and Equipment (amendment) Classification of servicing equipment

This amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The improvement had no impact on the company's financial statements.

IAS 32 Financial Instruments: Presentation (amendment) -Tax effects of distributions to holders of equity instruments

This amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The improvement had no impact on the company's financial statements.

IAS 34 Interim Financial Reporting (amendment) - Interim financial reporting and segment information for total assets and liabilities

This improvement clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment. The improvement had no impact on the company's financial statements.

IFRS 7 Financial Instrument Disclosures (revised)

The amendments require disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

Offsetting of financial assets and financial liabilities

Financial assets and financial liability are offset and the net amount presented in the statement of financial position when and only when, the entity:

(a) has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

These amendments are applied retrospectively, in accordance with the requirements of IFRS 8 for changes in accounting policy. If an entity chooses to early adopt IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32, it must make the disclosure required by IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7. The amendments affect disclosures only and have no impact on the company's financial position or performance.

Standards issued but not effective

The following standards have been issued or revised and will become effective for the January 2014:

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. The company does not expect this amendment to have material financial impact in future financial statements.

IAS 36 Recoverable Amount Disclosures for Non- Financial Assets — Amendments to IAS 36 - effective for annual periods beginning on or after 1 January 2014.

Notes to the Financial Statements for the year ended 31 December, 2014

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

(b) New and amended standards, interpretations and improvements ***(continued)***

The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. In addition, additional disclosure requirements have been added as follows:

(a) Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.

(b) Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

The company does not expect that the amendment to any have material financial impact in future financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The company has no derivatives during the current period. However, these amendments would be considered for future novations.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company, since the company does not have such transactions.

IFRS 9 Financial Instruments Classification And Measurement

IFRS 9, as issued in November 2009 and October 2010, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 and Transitional Disclosures, issued in December 2011, moved the mandatory date to 1 January 2015. On 19 November 2013, the IASB issued a new version of IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (IFRS 9 (2013)), which includes the new hedge accounting requirements and some related amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. The standard does not have a mandatory effective date, but it is available for immediate application. A new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the company's financial assets, but will not have an impact on classification and measurements of the company's financial liabilities. The company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The company does not expect that IFRIC 21 will have material financial impact in future financial statements.

Annual Improvements December 2013

These improvements will not have an impact on the company, but include:

- IFRS 2 Share-based Payment - Definition of vesting condition
- IFRS 3 Business Combinations-Accounting for contingent consideration in a business combination
- IFRS 3 Business Combinations-Scope exceptions for joint ventures
- IFRS 8 Operating Segments-Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets

Notes to the Financial Statements for the year ended 31 December, 2014

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) New and amended standards, interpretations and improvements *(continued)*

- IFRS 13 Fair Value Measurement-Short-term receivables and payables
- IFRS 13 Fair Value Measurement-Scope of paragraph 52 (portfolio exception)
- IAS 16 Property, Plant and Equipment-Revaluation method—proportionate restatement of accumulated depreciation
- IAS 24 Related Party Disclosures-Key management personnel
- IAS 38 Intangible Assets-Revaluation method—proportionate restatement of accumulated amortisation
- IAS 40 Investment Property - Clarifying the interrelationship between IFRS3 and IAS 40 when classifying investment property or owner-ocuppied property.

These improvements are effective for annual periods beginning effective on or after 1 July 2014.

(c) Key sources of estimation uncertainty

Management has made the following assumptions that have a significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities.

- Useful lives of property, plant and equipment

Management reviews the useful lives and residual values of the items of property, plant and equipment on a regular basis.

(d) Significant judgements made by management in applying the company's accounting policies

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

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

(e) Revenue recognition

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

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

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

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

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

(f) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at rates ruling at the transaction dates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

(g) Property, plant and equipment

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

Notes to the Financial Statements for the year ended 31 December, 2014

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

(b) New and amended standards, interpretations and improvements (continued)

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

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

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

Freehold land is not depreciated.

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

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

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

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

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

(h) Financial instrument

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

Financial assets

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

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

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

Notes to the Financial Statements for the year ended 31 December, 2014

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

(b) New and amended standards, interpretations and improvements ***(continued)***

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

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

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

Financial liabilities

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

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

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

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

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

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

Offsetting financial instruments

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

(i) Accounting for leases

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

(j) Inventories

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

(k) Cash and cash equivalents

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

(l) Taxation

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

Current tax

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

Notes to the Financial Statements for the year ended 31 December, 2014

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

(l) Taxation ***(continued)***

Deferred tax

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

(m) Employee entitlements

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

(n) Retirement benefit obligations

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

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

(o) Share capital

Ordinary shares are classified as equity

Notes to the Financial Statements for the year ended 31 December, 2014

		2014 KShs'000	2013 KShs'000
2.	**Income**		
	Sale of petroleum products	**184,983,138**	138,162,371
3.	**Other operating income**		
	Bad debts recovered	**1,156**	7,879
	Interest income	**49,095**	38,063
	Gain on disposal of property, plant and equipment	**7,731**	1,066
	Hospitality income	**174,278**	134,476
	Miscellaneous income	**9,769**	29,547
		242,029	211,031
4.	**Administrative expenses**		
	Employment:-		
	Salaries and wages	**151,065**	128,657
	Staff medical and welfare	**1,678**	631
	Other staff costs	**18,856**	12,917
	Total employment costs	**171,599**	142,205
	Other administrative expenses:-		
	Directors remuneration	**7,755**	15,024
	Postage and telephone	**8,781**	7,244
	Vehicle running expenses	**98**	12
	Printing and stationery	**1,656**	1,748
	Travelling and entertainment	**28,992**	11,792
	Advertising and sales promotion	**6,555**	3,097
	Subscriptions	**6,131**	5,168
	Donations and fines	**60**	-
	Audit fees	**3,436**	2,975
	Legal and professional fees	**80,277**	199,664
	Bank charges	**3,645**	6,709
	Foreign exchange loss	**34,867**	96,637
	Bad debts	**2,134**	-
	Miscellaneous expenses	**91,482**	66,981
	Total other administrative expenses	**275,870**	417,051
	Total administrative expenses	**447,469**	559,256

Notes to the Financial Statements for the year ended 31 December, 2014

		2014 KShs'000	2013 KShs'000
5.	**Other operating expenses**		
	Rent and rates	**20,267**	26,826
	Repairs and maintenance	**9,838**	19,144
	Electricity and water	**7,924**	6,765
	Insurance	**39,187**	23,976
	Security expenses	**6,998**	6,671
	Licences	**1,971**	2,527
	Depreciation of property, plant and equipment	**292,950**	241,410
	Loss on disposal of property, plant and equipment	-	-
	Total other operating expenses	**379,135**	327,319
6.	**Finance costs**		
	Interest expense	**20,473**	17,321
	Total finance costs	**20,473**	17,321
7.	**Profit before tax**		
	Profit before tax is stated after charging:-		
	Depreciation on property, plant and equipment	**292,950**	241,410
	Directors emoluments	**7,755**	15,024
	Auditors' remuneration	**3,436**	2,975
	Loss on disposal of property, plant and equipment	**-**	-
	Bad debts	**2,134**	-
	Interest expense	**20,473**	17,321
	And after crediting:-		
	Gain on disposal of property, plant and equipment	**7,733**	1,066
	Interest income	**49,095**	38,063

Notes to the Financial Statements for the year ended 31 December, 2014

		2014 KShs'000	2013 KShs'000
8.	**Tax**		
(a)	Statement of profit or loss and other comprehensive income		
	Current tax charge	**327,524**	83,328
	Under provision in prior years	**11,419**	-
	Deferred tax charge / (credit) (Note 15)	**(19,189)**	(57,027)
		319,754	26,301
(b)	Reconciliation of tax expense to tax based on accounting profit		
	Accounting profit before tax	**959,134**	76,881
	Tax calculated at the rate of 30% (2013: 30%)	**287,740**	23,064
	Tax effect of:		
	- Under provision in prior periods	**11,419**	-
	- Expenses not deductible for tax purposes	**23,981**	3,237
	- Non-taxable income	**(3,386)**	-
	- Deferred tax not previously recognised	-	-
	Tax expense	**319,754**	26,301
(c)	Statement of financial position		
	As at 1 January	**202,044**	283,137
	Charge for the year	**(327,524)**	(83,328)
	Under provision in prior years	**(11,419)**	-
	Paid during the year	**6,441**	2,235
	At 31 December	**(130,458)**	202,044

Notes to the Financial Statements for the year ended 31 December, 2014

9. Property, plant and equipment

Year ended 31 December 2014

	Freehold land and building KShs'000	Leasehold land KShs'000	Storage tanks KShs'000	Plant and machinery KShs'000	Furniture, fittings and Equipment KShs'000	Computers, Faxes and Copiers KShs'000	Capital work in progress KShs'000	Total KShs'000
COMPANY								
Cost or valuation								
At start of year	271,080	1,118,050	5,437,164	198,664	27,807	15,661	16,306	7,084,732
Reclassification **								
Additions	-	-	2,132	6,107	1,292	3,233	2,371	15,135
Transfers from capital work in progress					14,466		(14,466)	
Disposals	(10,000)	(240,000)	(1,973)		(8,273)	(2,945)		(263,191)
Revaluation recognized in OCI								-
Transfer*								-
At end of year	261,080	878,050	5,437,323	204,771	35,292	15,949	4,211	6,836,676
Comprising								
Cost	12,069	57,979	49,420	7,150	35,292	15,949	4,211	182,070
Revaluation	249,011	820,071	5,387,903	197,621	0	0	0	6,654,606
	261,080	878,050	5,437,323	204,771	35,292	15,949	4,211	6,836,676
Depreciation								
At start of year	-	-	-	-	21,182	14,070	-	35,252
Reclassification **								
Charge for the year	4,183	44,722	214,842	26,316	1,755	1,132		292,950
Disposal	(400)	(9,600)	(52)		(7,523)	(2,309)		(19,884)
Transfer*								-
At end of year	3,783	35,122	214,790	26,316	15,414	12,893	-	308,318
Net book value	257,297	842,928	5,222,533	178,455	19,878	3,056	4,211	6,528,358

Land, buildings, storage tanks and plant and machinery were revalued on 31 December 2013 by Vineyard Valuers Limited. Valuations were made on the basis of open market value for the existing use. The book values of the properties were adjusted and the resultant surplus was credited to the revaluation reserve in the shareholder's equity.

Notes to the Financial Statements for the year ended 31 December, 2014

9. Property, plant and equipment (continued)

Year ended 31 December 2013

	Freehold land and buildings KShs'000	Leasehold land KShs'000	Storage tanks KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Furniture, fittings and equipment KShs'000	Computers, faxes and copiers KShs'000	Capital work in progress KShs'000	Total KShs'000
COMPANY									
Cost or valuation									
At start of year	499,722	60,250	5,059,527	177,482	2,940	23,017	15,455	15,336	5,853,729
Reclassification**	(382,732)	385,205	53,718	(58,432)	-	1,891	350	-	-
Additions	-	9,800	4,770	-	-	2,763	89	13,019	30,441
Transfer from capital work-in-progress	-	-	11,130	-	-	919	-	(12,049)	-
Disposals	-	-	-	-	(2,940)	(783)	(233)	-	(3,956)
Revaluation recogonised in OCI	158,490	748,880	1,321,531	167,874	-	-	-	-	2,396,775
Transfer*	(4,400)	(86,085)	(1,013,512)	(88,260)	-	-	-	-	(1,192,257)
At end of year	271,080	1,118,050	5,437,164	198,664	-	27,807	15,661	16,306	7,084,732
Comprising									
Cost	12,977	70,050	49,616	1,043	-	27,807	15,661	16,306	193,460
Revaluation	258,103	1,048,000	5,387,548	197,621	-	-	-	-	6,891,272
	271,080	1,118,050	5,437,164	198,664	-	27,807	15,661	16,306	7,084,732
Depreciation									
At start of year	69,957	6,708	807,674	70,668	2,779	18,962	12,985	-	989,733
Reclassification**	(66,437)	61,349	4,083	(60)	-	1,340	(275)	-	-
Charge for the year	880	18,028	201,755	17,652	-	1,594	1,501	-	241,410
Disposal	-	-	-	-	(2,779)	(714)	(141)	-	(3,634)
Transfer*	(4,400)	(86,085)	(1,013,512)	(88,260)	-				(1,192,257)
At end of year	-	-	-	-	-	21,182	14,070	-	35,252
Net book value	271,080,	118,050	5,437,164	198,664	-	6,625	1,591	16,306	7,049,480

* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued assets.

** Reclassification refers to assets that were previously wrongly classified corrected in the current year.

Land, buildings, storage tanks and plant and machinery were revalued on 31 December 2013 by Vineyard Valuers Limited. Valuations were made on the basis of open market value for the existing use. The book values of the properties were adjusted and the resultant surplus was credited to the revaluation reserve in the shareholder's equity.

Notes to the Financial Statements for the year ended 31 December, 2014

10. Inventories

	2014 KShs'000	2013 KShs' 000
Petroleum products	**1,670,751**	10,021,903
Store and Spares and Lubricant	**11,491**	-
Goods in transit	**11,741,353**	13,820,535
	13,423,595	23,842,438

11. Trade and other receivables

Trade receivables	**328,999**	693,245
Less: provision for impairment	**(1,068)**	(1,067)
Net trade receivables	**327,931**	692,178
Prepayment and deferred charges	**59,777**	104,067
Receivable from related parties (Note 19 (iv))	**952,230**	1,388,163
Loan receivable from related parties (Note 19 (iv))	**-**	-
	1,339,938	2,184,408

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

Movement in impairment provisions	2014 KShs' 000	2013 KShs' 000
At start of year	**1,067**	14,467
Additions	**2,134**	-
Recoveries	**(1,156)**	(7,879)
Written off	**(977)**	(5,521)
At end of year	**1,068**	1,067

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

	2014 KShs' 000	2013 KShs
KShs ('000)	**74,459**	116,575
USD ('000)	**1,265,479**	2,067,833
	1,339,938	2,184,408

Trade receivables that are aged between 3 to 6 months are considered past due. As of 31 December 2014, trade receivables amounting to NIL (2013: 73,763,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

Individually impaired receivables mainly relate to customers, who are in unexpectedly difficult economic situations. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

Notes to the Financial Statements for the year ended 31 December, 2014

12. Share capital

	2014 **KShs'000**	2013 KShs'000
Authorised:		
72,977,000 (2013: 72,977,000) ordinary shares of KShs. 20 each		
	1,459,540	1,459,540
Issued and fully paid:		
72,977,000 (2013: 72,977,000) ordinary shares of KShs. 20 each	**1,459,540**	1,459,540

Share premium of KShs 502,551,000 arose from issue of 7,977,000 shares to Gapco Mauritius at a premium of KShs 63 each in December 2008.

13. Revaluation reserve

	2014 **KShs'000**	2013 KShs'000
Land and buildings	**667,973**	909,451
Storage tanks	**2,306,374**	2,344,196
Plant and machinery	**107,982**	120,248
	3,082,329	3,373,895
The movements of the reserves were as follows;		
Land and buildings		
At start of year	**909,451**	2,185
Revaluation	**-**	907,370
Revaluation on disposal	**(203,308)**	-
Transfer of excess depreciation	**(38,170)**	(104)
At end of year	**667,973**	909,451
Storage tanks		
At start of year	**2,344,196**	1,490,080
Revaluation	**-**	1,321,531
Deferred tax on revaluation	**-**	(396,459)
Transfer of excess depreciation	**(54,031)**	(101,366)
Deferred tax on transfer of excess depreciation	**16,209**	30,410
At end of year	**2,306,374**	2,344,196
Plant and machinery		
At start of year	**120,248**	3,284
Revaluation	**-**	167,874
Deferred tax on revaluation	**-**	(50,362)
Transfer of excess depreciation	**(17,523)**	(782)
Deferred tax on transfer of excess depreciation	**5,257**	234
At end of year	**107,982**	120,248

Notes to the Financial Statements for the year ended 31 December, 2014

13. Revaluation reserve ***(continued)***	**2014 KShs'000**	2013 KShs'000
Total		
At start of year	**3,373,895**	1,495,549
Revaluation	**-**	2,396,775
Revaluation on disposal	**(203,307)**	-
Deferred tax on revaluation	**-**	(446,821)
Transfer of excess depreciation	**(109,724)**	(102,252)
Deferred tax on transfer of excess depreciation	**21,466**	30,644
At end of year	**3,082,329**	3,373,895

14. Retirement benefit obligations

At start of year	**12,344**	9,065
Less: amounts utilised	**(4,554)**	(1,787)
Charge to profit or loss	**(846)**	5,066
At end of year	**6,944**	12,344

The group operates a gratuity scheme for qualifying employees which qualifies as a defined benefit scheme. Under the plan, the employees are entitled to 15 days of their latest basic salary for each successful completed year of services

15. Deferred tax

Deferred tax is calculated in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2013: 30%). The movement on the deferred tax account is as follows:

	2014 KShs'000	2013 KShs'000
At start of year	**1,254,983**	865,189
Charge on revaluation reserve	**-**	446,821
Credit to profit or loss	**(19,189)**	(57,027)
At end of year	**1,235,794**	1,254,983

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

Deferred tax liabilities	At start of year KShs'000	Charge / (credit) to equity KShs'000	Charge / (credit) to profit or loss KShs'000	At end of year KShs'000
Property, plant and equipment				
- historical cost	328,645	-	(15,470)	313,175
- revaluation	1,056,189	-	(21,465)	1,034,724
Unrealised exchange differences	(4,870)	-	23,006	18,136
	1,379,964	-	(13,929)	1,366,035

Notes to the Financial Statements for the year ended 31 December, 2014

Deferred tax (assets)				
Provision for leave and long-term service dues	(5,158)	-	2,580	(2,578)
Other provisions	(119,823)	-	(7,840)	(127,663)
	(124,981)	-	(5,260)	(130,241)
Net deferred tax liability	1,254,983	-	(19,189)	1,235,794

16. Unsecured Loan

	2014 KShs'000	2013 KShs'000
Unsecured loan (Note 19 (iv))	**1,288,819**	-
	1,288,819	-

17. Trade and other payables

	2014 KShs'000	2013 KShs'000
Trade payables	**1,137,624**	1,113,552
Accruals and other payables	**3,916,630**	3,977,093
Provision for leave	**1,650**	5,141
Payable to related parties (Note 19 (iv))	**6,647,257**	21,021,155
	11,703,161	26,116,941

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

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

	2014 KShs'000	2012 KShs'000
KShs	**3,721,041**	1,577,155
USD	**7,982,120**	24,539,786
	11,703,161	26,116,941

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

	0 to 1 months KShs'000	2 to 3 months KShs'000	Over 3 Months KShs'000	Total KShs'000
Year ended 31 December 2014				
Trade payables	894,366	173,048	70,210	1,137,624
Accruals and other payables	3,510,185	200	406,245	3,916,630
Provision for leave	1,650	-	-	1,650
Payable to related parties	-	7,855	6,639,402	6,647,257
	4,406,201	181,103	7,115,857	11,703,161

Notes to the Financial Statements for the year ended 31 December, 2014

Year ended 31 December 2013				
Trade payables	911,199	145,623	56,730	1,113,552
Accruals and other payables	2,518,303	1,137,311	321,479	3,977,093
Provision for leave	768	2,345	2,028	5,141
Payable to related parties	20,964,848	35,209	21,098	21,021,155
	24,395,118	1,320,488	401,335	26,116,941

18. Cash and cash equivalents

	2014 KShs'000	2013 KShs'000
For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:		
Cash and bank balances	**787,955**	1,181,188
	787,955	1,181,188

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

KShs	**707,807**	839,501
USD	**80,148**	341,687
	787,955	1,181,188

19. Related party transactions and balances

The immediate holding company is Gulf Africa Petroleum Corporation, a company incorporated and registered in Mauritius while the ultimate holding company is Reliance Industries Limited, registered and incorporated in India.

The following transactions were carried out with related parties:

		2014 KShs'000	2013 KShs'000
i)	Sales of Goods and Services		
	Gapco Uganda Limited	**4,122,605**	4,709,771
	Gapco Rwanda Limited	**99,517**	536,050
	Gapco Tanzania Limited	**4,687,903**	1,840,411
		8,910,025	7,086,232
ii)	Purchase of goods and services		
	Reliance Industries Limited	**150,528,991**	123,061,360
	Gapco Tanzania Limited	**1,033**	2,290,033
	Reliance Corporate IT Park Limited	**35,527**	159,738
		150,565,551	125,511,131
iii)	Royalty		
	Reliance Petro Marketing Limited	**33**	27,988
		33	27,988

Notes to the Financial Statements for the year ended 31 December, 2014

iv) Outstanding balances arising from sale and purchase of goods/services and loan

	2014 KShs'000	2013 KShs'000
Receivable from other related companies		
Gapco Rwanda Limited	-	93,281
Gapco Tanzania Ltd	**952,230**	1,294,882
Receivable from related parties (Note 11)	**952,230**	1,388,163
Payables to other related companies		
Gapco Uganda Limited	**7,855**	1,201,432
Transenergy (Kenya) Limited	**22,768**	25,067
Payable to related parties (Note 17)	**30,623**	1,226,499
Unsecured loan from related party (Note 16)		
Gapco Uganda Limited	**1,288,819**	-
Payable to ultimate parent company and other subsidiary		
Reliance Industries Limited	**6,587,324**	19,662,591
Reliance Corporate IT Park Limited	**29,310**	132,065
Payable to parent company and other subsidiary	**6,616,634**	19,794,656

v) Key management compensation

	2014 KShs'000	2013 KShs'000
Salaries and other short-term benefits	**7,755**	15,024

20. Commitments

i) Operating lease commitments

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

	2014 KShs'000	2013 KShs'000
Not later than 1 year	**-**	25,325
Later than 1 year and not later than 5 years	**86,144**	23,344
	86,144	48,669

ii) Capital commitments

Capital expenditure contracted for at the reporting date is as follows:

	2014 KShs'000	2013 KShs'000
Property, plant and equipment	**1,189**	1,630

21. Contingent Liabilities

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

- Citi Bank - KShs. 100,000,000
- Bank of Baroda - KShs. 271,793,400 (USD 3,000,000)

(ii) Letters of Credit - KShs. 1,056,958,630 (USD 11,666,493)

22. Risk management objectives and policies

Notes to the Financial Statements for the year ended 31 December, 2014

Financial risk management

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

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

Risk management is carried out by the management. Management identifies, evaluates and hedges financial risks in close co-operation with the board.

a) Market risk

Foreign exchange risk

The company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollars. The risk arises from future transactions, assets and liabilities in the statement of financial position.

The table below summarises the effect on post-tax profit and components of equity had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

	2014	2013
	KShs'000	KShs'000
Effect on profit - (decrease)	(201,499)	(1,549,139)

Interest rate risk

The company's exposure to interest rate risk arises from loan receivables, non-current borrowings/ current borrowings and interest bearing creditors. Borrowings obtained at different rates expose the company to interest rate risk. Borrowings obtained at fixed rates expose the company to fair value interest rate risk.

During the year ended 31 December 2014, if interest rates at that date had been 1 percentage point higher with all other variables held constant, post-tax profit for the year would have been KShs NIL (2013: Nil) lower, arising mainly as a result of parent company loan fully paid.

b) Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set by management based on internal or external information available. The utilisation of credit limits is regularly monitored.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

None of the financial assets that are fully performing has been renegotiated in the last year.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

Notes to the Financial Statements for the year ended 31 December, 2014

23. Capital management

The company's objectives when managing capital are:

-to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk;

-to comply with the capital requirements set out by the company's bankers;

-to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;

-to maintain a strong asset base to support the development of business; and

-to maintain an optimal capital structure to reduce the cost of capital.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, bonuses paid to directors or issue new shares. Consistently with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt: capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents.

Capital comprises all components of equity.

Debt-to-capital ratio during the two years is not calculated since the company didn't have borrowings.

24. Events after the reporting date

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

25. Incorporation

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

26. Presentation currency

The financial statements are presented in Kenya Shillings and all values are rounded to the nearest thousand (KShs'000).