INFORMATIENOTA (AANBIEDING AAN HET PUBLIEK)

INFORMATIENOTA OVER DE AANBIEDING VAN SOLLATEK OBLIGATIES DOOR SOLLATEK ELECTRONICS KENYA LTD.

Dit document is opgesteld door Hands-on BV (Lendahand).

DIT DOCUMENT IS GEEN PROSPECTUS EN WERD NIET GECONTROLEERD NOCH GOEDGEKEURD DOOR DE AUTORITEIT VOOR FINANCIËLE DIENSTEN EN MARKTEN

23 maart 2020

WAARSCHUWING: DE BELEGGER LOOPT HET RISICO ZIJN BELEGGING VOLLEDIG OF GEDEELTELIJK TE VERLIEZEN EN/OF HET VERWACHTE RENDEMENT NIET TE BEHALEN

DE BELEGGINGSINSTRUMENTEN ZIJN NIET GENOTEERD: DE BELEGGER LOOPT HET RISICO GROTE PROBLEMEN TE ONDERVINDEN OM ZIJN POSITIE AAN EEN DERDE TE VERKOPEN INDIEN HIJ DAT ZOU WENSEN.

Deel I - Belangrijkste risico's die inherent zijn aan de uitgevende instelling en de aangeboden beleggingsinstrumenten, en die specifiek zijn voor de betrokken aanbieding

Over het algemeen geldt hoe hoger het aangeboden of verwachte rendement, hoe hoger het risico. Het aangeboden of verwachte rendement op de obligaties is afhankelijk van de winst die de uitgevende instantie maakt. De kans bestaat dat de winst lager is dan verwacht of dat er zelfs sprake is van verlies, waardoor u mogelijk minder rendement krijgt uitgekeerd of zelfs uw inleg of een deel daarvan verliest. De belangrijkste redenen waardoor de uitgevende instelling mogelijk niet in staat is het aangeboden of verwachte rendement of zelfs uw inleg uit te keren, zijn:

Macro-economische, sociale en politieke landenrisico's: er is sprake van het risico dat macro-economische, sociale en politieke factoren leiden tot een lastig zakelijk klimaat voor de uitgevende instelling. Deze risico’s zijn aan elkaar gerelateerd en lastig te beheersen. Economische, financiële en sociale instabiliteit, een complex en snel veranderende juridisch systeem, natuurrampen, etc hebben een grote impact op het zakelijk klimaat via o.a. devaluaties van lokale valuta, hoge inflatie en beperkte capaciteit tot terugbetaling door klanten.

Wisselkoersrisico: er is sprake van het risico op verliezen door wisselkoersschommelingen omdat de uitgevende instelling inkomsten genereert die anders zijn dan de valuta waarin de obligaties zijn uitgegeven. Dit betekent dat de liquiditeit en solvabiliteit van de uitgevende instelling in gevaar kan komen bij heftige wisselkoersschommelingen.

Financieringsrisico: er is sprake van een financieringsrisico omdat de uitgevende instelling continue financiering nodig heeft voor haar activiteiten. Dit betekent dat het kan gebeuren dat de uitgevende instelling haar leenportefeuille moet verkleinen als ze niet meer voldoende financiering kan aantrekken wat een neerwaartse druk geeft op de winstgevendheid.

De obligaties zijn niet verhandelbaar op een beurs of platform en daardoor beperkt verhandelbaar. Dat betekent dat er mogelijk geen koper is voor uw obligaties als u tussentijds van uw belegging af wilt. U loopt dan dus het risico dat u niet op het door u gewenste moment uw geld terug kan krijgen en uw belegging langer aan moet houden of uw obligaties voor een lagere prijs moet verkopen.

Fraude en corruptierisico’s: er is sprake van het risico op fraude en/of corruptie omdat er over het algemeen een grote afstand is tussen de uitgevende instelling en de investeerders in de obligaties. Tevens is het fraude- en corruptieniveau in het land van de uitgevende instelling over het algemeen hoger dan in het land van verblijf van de investeerders in de obligaties. Dit betekent dat de (financiële) situatie bij de uitgevende instelling er beter voor kan lijken te staan dan dat het daadwerkelijk is.

‘Key man risk’: er is grote afhankelijkheid van een aantal belangrijke personen. Dit betekent dat de continuïteit in gevaar kan komen als een of meerdere van deze personen het bedrijf verlaten.

Vervroegde aflossing: er is sprake van het risico op vervroegde aflossing omdat de uitgevende instelling de obligaties op lagere kosten kan herfinancieren. Dit betekent voor u als belegger dat u eerder de beschikking heeft over uw geld dan verwacht, hetgeen gederfde (rente)inkomsten als gevolg kan hebben.

Rangorde uitbetaling: uitkering van het rendement gebeurt nadat operationele uitstaande kosten voldaan zijn zoals lonen en facturen van leveranciers. Het risico bestaat dat de uitgevende instelling onvoldoende liquide middelen overhoudt om het rendement uit te keren. Dit betekent voor u als belegger dat het rendement lager kan zijn dan verwacht en eventueel dat u niet uw volledige inleg terugkrijgt.
In geval van faillissement hebben de volgende uitkeringen voorrang op de uitbetaling van het rendement op de obligaties: operationele uitstaande kosten, belastingen, deposito's, vreemd vermogen met onderpand. Let op dat deze lijst niet per se uitputtend is. Dit betekent voor u dat het rendement lager kan zijn dan verwacht en eventueel dat u niet uw volledige inleg terugkrijgt.

Beperkt eigen vermogen: het eigen vermogen van de uitgevende instelling is beperkt ten opzichte van het vreemd vermogen. Dit betekent dat de buffer aan eigen vermogen klein is waardoor bij tegenvallende resultaten de uitgevende instelling relatief snel niet meer aan haar verplichtingen op de obligaties zal kunnen voldoen. Het risicoprofiel van de obligaties lijkt daardoor op het risicoprofiel van aandelen.

Portefeuille risico: er is sprake van het risico op teveel slechte leningen in de portefeuille van de uitgevende instelling, bijvoorbeeld omdat de kredietbeoordeling en/of klantafhandeling niet op orde is, of omdat klanten het product niet meer willen afbetalen. Dit betekent dat leningen afgeboekt moeten worden wat een weerslag kan hebben op de kapitalisatie en winstgevendheid van de uitgevende instelling.

Operationeel risico: er is sprake van het risico op operationele tekortkomingen omdat de kosten langdurig te hoog kunnen zijn versus de opbrengsten. Ook kan de omzet tegenvallen, bijvoorbeeld omdat de producten niet aan de verwachtingen voldoen of verouderd worden geacht. Verder kan een intrekking van licentie of verplichting van additionele licenties gevolgen hebben op de operaties. Dit betekent dat de uitgevende instelling niet meer aan haar financiële verplichtingen kan voldoen.

Platform risico: er is sprake van het risico op discontinuatie van het platform omdat de aanbieder de exploitatie niet rendabel kan maken. Dit betekent dat het lastiger zal zijn om terugbetalingen te faciliteren voor investeerders in de obligaties.

Deel II - Informatie over de uitgevende instelling en de aanbieder van de beleggingsinstrumenten

A. Identiteit van de uitgevende instelling

1. De uitgevende instelling is een besloten vennootschap, opgericht op 16/10/1971 en gevestigd in Kenya. Het adres van de uitgevende instelling is P.O. Box 34246 – 80100, Mombasa, Kenya. De website van de uitgevende instelling is www.sollatek.com

2. Dit zijn de belangrijkste activiteiten van de uitgevende instelling: het leveren van producten en diensten op het gebied van duurzame energie, energie efficiëntie en netwerkbescherming in Sub Sahara Afrika.

3. Voor zover die informatie bekend is bij de uitgevende instelling of de aanbieder, identiteit van de personen die meer dan 5% van het kapitaal van de uitgevende instelling in bezit hebben, en omvang (uitgedrukt als percentage van het kapitaal) van de deelnemingen in hun bezit: Chris Soper (60%), Saleem Abdulla (40%)

4. Het bedrag aan uitstaande leningen is EUR 1.976.534. Dit betreft 4 leningen die de uitgevende instelling op diverse data afgelost moet hebben, met uitzondering van de aandeelhouderslening van EUR 565.067 die geen vervaldatum heeft.

5. De uitgevende instelling wordt bestuurd door Sollatek Electronics Kenya Ltd, middels de volgende natuurlijke personen: Saleem Abdulla, Christopher Soper, Shemina Khodabaksh, Sam Odhaimbo and Natalie Balck.

6. Bezoldiging bestuurder: onbekend bij aanbieder

7. voor de sub 4° bedoelde personen, vermelding van elke veroordeling als bedoeld in artikel 20 van de wet van 25 april 2014 op het statuut van en het toezicht op kredietinstellingen en beursvennootschappen, of een passende negatieve verklaring: niet van toepassing

8. beschrijving van de belangenconflicten tussen de uitgevende instelling en de sub 3° tot 5° bedoelde personen, of met andere verbonden partijen, of een passende negatieve verklaring: niet van toepassing

9. in voorkomend geval, identiteit van de commissaris: niet van toepassing

B. Financiële informatie over de uitgevende instelling

Verklaring door de uitgevende instelling dat het werkkapitaal naar haar oordeel toereikend is om aan haar behoeften voor de volgende twaalf manden te voldoen: ja

Het bedrag aan uitstaande leningen is EUR 1.976.534. Dit betreft 4 leningen die de uitgevende instelling op diverse data afgelost moet hebben, met uitzondering van de aandeelhouderslening van EUR 565.067 die geen vervaldatum heeft.

Beschrijving van elke wijziging van betekenis in de financiële of handelspositie de zich heeft voorgedaan na het einde van het laatste boekjaar waarop de sub 1° hierboven bedoelde jaarrekening betrekking heeft, of een passende negatieve verklaring: niet van toepassing

C. Uitsluitend wanneer de aanbieder en de uitgevende instelling verschillende personen zijn: identiteit van de aanbieder

De aanbieder is niet de uitgevende instelling van de obligaties. Na uitvoerig onderzoek biedt de aanbieder de uitgevende instelling toegang tot haar website waarmee de uitgevende instelling financiering kan aantrekken ten behoeve van verschillende projecten. Hiervoor krijgt de aanbieder een vergoeding van de uitgevende instelling. Er is dus een financiële relatie tussen de aanbieder en de uitgevende instelling. Meer informatie over de uitgevende instelling is te vinden op de website van de aanbieder.

De aanbieder is opgericht op 17 juli 2012 en gevestigd in Rotterdam onder het KvK-nummer 55711766. Het adres van de aanbieder is Eendrachtsplein 3, Unit 2A, 3015 LA Rotterdam, Nederland. De website van de aanbieder is www.lendahand.com

De aanbieder wordt bestuurd door Engelcke B.V., Le Theta B.V. en Wiggerd B.V.

Contactpersoon: Koen The, koen.the@lendahand.com, +31 10 7171815.

D. Uitsluitend wanneer de aangeboden beleggingsinstrumenten een onderliggend actief hebben: beschrijving van het onderliggende actief

Niet van toepassing.

Deel III - Informatie over de aanbieding van beleggingsinstrumenten

A. Beschrijving van de aanbieding

De totale opbrengst van de aanbieding bedraagt EUR 1.500.000, verdeeld over diverse projecten gedurende de looptijd van de aanbieding.

Dit bedrag kan ook lager zijn als niet op alle obligaties wordt ingeschreven. De minimale opbrengst is EUR 50.000.

De aanbiedingsperiode begint op 24-03-2020 en eindigt op 23-03-2021, of zoveel eerder als op de gehele aanbieding is ingeschreven.

Gedurende de aanbiedingsperiode biedt de uitgevende instelling projecten aan op de Lendahand website op basis waarvan obligaties worden uitgegeven.

De uitgiftedatum van de obligaties is doorlopend gedurende de aanbiedingsperiode.
De startdatum van een obligatie is de eerste dag van de maand volgend op de dag dat het onderliggende project volledig gefinancierd is.

Van elke euro van uw inleg wordt EUR 0,- gebruikt om kosten af te dekken. EUR 1,- wordt geïnvesteerd in obligaties van de uitgevende instelling. Er is dus geen sprake van kosten voor de belegger.

B. Reden voor de aanbieding

De opbrengst wordt gebruikt voor het financieren van producten op het gebied van duurzame energie, energie efficientie en netwerkbescherming in Sub Sahara Afrika. Van de opbrengst wordt 0% gebruikt voor kosten, tenzij er sprake is van een eenmalige vooruitbetaalde platform vergoeding welke over het algemeen niet hoger is dan 6%.

De opbrengst is voldoende voor het financieren van producten op het gebied van duurzame energie, energie efficiëntie en netwerkbescherming in Sub Sahara Afrika, inclusief de eventuele eenmalige vooruitbetaalde platform vergoeding.

Deel IV - Informatie over de aangeboden beleggingsinstrumenten

A. Kenmerken van de aangeboden beleggingsinstrumenten

U belegt in een obligatie.

De nominale waarde van de obligaties is EUR 50,00.

De intrinsieke waarde van de obligaties is EUR 50,00.

De prijs van de obligaties is EUR 50,00.

Deelname is mogelijk vanaf EUR 50,00.

De uitgiftedatum van een obligatie is de eerste dag van de maand volgend op de dag dat het onderliggende project volledig gefinancierd is.

De looptijd van de verschillende obligaties varieert tussen de 6 en 48 maanden. De betreffende looptijd wordt per project aangegeven. Terugbetalingen vinden elke 6 maanden plaats, inclusief rente, op de 15e van de maand.

De rente op de obligaties is tussen de 5-6% per jaar. Het betreffende percentage wordt per project aangegeven. De obligaties kennen geen bonusrente.

Rang van de beleggingsinstrumenten in de kapitaalstructuur van de uitgevende instelling bij insolventie: obligaties zijn niet preferent noch achtergesteld.

B. Uitsluitend in het geval waarin door een derde een garantie wordt toegekend in verband met de beleggingsinstrumenten: beschrijving van de garant en van de garantie

Niet van toepassing.

C. In voorkomend geval, bijkomende informatie voorgelegd door de markt waar de beleggingsinstrumenten toegelaten zijn.

Niet van toepassing.

Deel V - Alle andere belangrijke informatie die mondeling of schriftelijk aan één of meer beleggers wordt gericht

Onder verwijzing naar de Wet van 18 december 2016 tot regeling van de erkenning en de afbakening van crowdfunding en houdende diverse bepalingen inzake financiën, wordt de volgende informatie gedeeld:

De volledige identiteit en contactgegevens van de gereglementeerde onderneming die de alternatieve-financieringsdiensten verstrekt:

Hands-on B.V. (*een besloten vennootschap met beperkte aansprakelijkheid, opgericht naar Nederlands recht op 17 juli 2012 en gevestigd te Rotterdam*)
Eendrachtsplein 3, Unit 2A
3015 LA Rotterdam, Nederland
www.lendahand.com

Geregistreerd bij de Nederlandse Kamer van Koophandel onder nummer 55711766
De aanbieder wordt bestuurd door Engelcke B.V., Le Theta B.V. en Wiggerd B.V.
Contactpersoon: Koen The, koen.the@lendahand.com, +31 10 7171815.

De naam en het adres van de bevoegde autoriteit die de vergunning heeft verleend aan de gereglementeerde onderneming:

Autoriteit Financiële Markten (**AFM**)
Vijzelgracht 50
1017 HS Amsterdam, Nederland

De kosten van de alternatieve-financieringsdiensten voor de cliënten: geen.
De in het kader van het verstrekken van de alternatieve-financieringsdiensten in ontvangst genomen vergoedingen: een fee van de uitgevende instellingen.

De gereglementeerde onderneming beschikt over een belangenconflictenbeleid, ten einde zich op loyale, billijke en professionele wijze in te kunnen zetten voor de belangen van haar cliënten.

De gereglementeerde onderneming verwijst naar bovengenoemde Wet van 18 december 2016 voor de geldende (gedrags)regels voor het verstrekken van alternatieve-financieringsdiensten.

De te financieren projecten worden op de volgende wijze geselecteerd:

Lendahand voert een boekenonderzoek uit waarbij onder andere gekeken wordt naar de track record, de sociale missie, het business model en enkele financiële datapunten (zoals de unit economics en marges, winstgevendheid, groeicijfers, de balansgrootte, samenstelling van de bezittingen en schulden). Dit boekenonderzoek wordt ter goedkeuring voorgelegd aan een externe credit committee bestaande uit impact investing professionals.

Het is de gereglementeerde onderneming verboden:

- om gelden die haar cliënten toebehoren in ontvangst te nemen en aan te houden
- om beleggingsdiensten te verlenen, met uitzondering van het in ontvangst nemen en doorgeven van orders
- om een mandaat of volmacht te hebben op de rekeningen van haar cliënten

Voornaamste kenmerken van de beleggingsinstrumenten die de gereglementeerde onderneming commercialiseert: vast rentende obligatieleningen met tussentijdse aflossingen.

Bijlage

Voor zover de uitgevende instelling op dat moment al actief was, haar jaarrekening van de laatste twee boekjaren, alsook, in voorkomend geval, overeenkomstig artikel 13, go 1 of 2, 1°, van de wet van 11 juli 2018, het verslag van de commissarissen.

SOLLATEK ELECTONICS (KENYA)
LIMITED ANNUAL REPORT AND
FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018

COMPANY INFORMATION

BOARD OF DIRECTORS	Christopher R. L. Soper Mohamed S. N. Abdull a
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	Plot No. 6244/IMN Sollatek Building Main Mombasa - Malindi Road P. 0 . Box 83313 - 80118 Mombasa Telephone: (020) - 3501671/2 Fax: (020) - 3501673 E-mail: sales@sollatek.co.ke
INDEPENDENT AUDITOR	PKF Kenya Certified Public Accountants P. 0. Box 90553 - 80100 Mombasa
COMPANY SECRETARY	Equatorial Secretaries and Registrars Certified Public Secretaries P. 0. Box 90553 - 80100 Mombasa
PRINCIPAL BANKERS	Commercial Bank of Africa Limited Mombasa Equity Bank Limited Mombasa Diamond Trust Bank Kenya Limited Mombasa

REPORT OF THE DIRECTORS

The directors submit their report together with the financial statements for the year ended 31 December which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activities of the company are assembly, sale and service of electrical items.

BUSINESS REVIEW

During the year 2018 the total turnover of the company increased from Shs 414,816,426 to Shs 493,876,947. This was mainly attributed to continous supply of products during the ye ar. The profit before tax increased from Shs 48,152,561 to Shs 98,752.028 reflecting effects of above .

As at 31 December 2018, the net asset position of the company was Shs 308,188,886 compared to Shs 263,733,873 as at 31 December 2017.

Key performance indicators	2018	2017
Turnover (Shs)	493,876,947	414,816,426
Gross profit (Shs)	203,946,034	138,318,2 7 4
Gross profit margin	41%	**33%**
Profit for the year (Shs)	68,690,071	32,907,128
Net profit margin	3%	1 %
Net assets (Shs)	308,188,886	263,733,873
Return on capital employed	7%	2%

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on demand of the company's products and services. The company's strategic focus is to enhance sales whilst maintaining profit margins. The success of which remains dependent on overall market conditions customers.

In addition to the business risk discussed above, the the company's activities expose it to a number of risks including credit risk, cash flow and liquidity risk as set-out below:

Credit risk

The company's principal financial assets are cash and bank balances and trade and other receivables . company's credit risk is primarily attributable to its trade receivables. The amounts presented in the sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is identified loss event which, based on previous experience, is evidence of a reduction in the recoverability cash flows. The credit risk on cash and bank balances is limited because the counterparties are banks credit-ratingsassigned by credit-rating agencies. The company has no significant concentration of credit with exposure spread over a number of counterparties.

..............continued on page 3

REPORT OF THE DIRECTORS (CONTINUED)

Cash flow and foreign currency risk

The company has transactions in both Kenya Shillings and foreign currency, where the company is to currency risk. The risk is managed through appropriate operational offset of open receivable and foreign currency positions.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and developments, the company monitors its need for cash on a regular basis and takes appropriate action appropriate financing arrangements.

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2017: Shs Nil).

DIRECTORS

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

In accordance with the company's Articles of Association, no director is due for retirement by rotation.

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

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

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

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

TERMS OF APPOINTMENT OF THE AUDITOR

PKF Kenya continues in office in accordance with the company's Articles of Association and Section the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the The directors also approve the annual audit engagement contract which sets out the terms of the appointment and the related fees. The agreed auditor's remuneration of Shs 656,250 has been charged profit or loss in the year .

BY ORDER OF THE BOARD

DIRECTOR
MOMBASA

"Pf/u6/ 2019
I I

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors accept responsibility for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and manner required by the Kenyan Companies Act, 2015. They also accept responsib ility for:

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

The directors are of the opinion that the financial statements give a true and fair view of the financial the company as at 31 December 2018 and of its financial performance and cash flows for the year then in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities requirements of the Companies Act, 2015.

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

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

Approved by the board of directors on 2-1-// (), / I 7 2019 signed on its behalf by:

DIRECTOR

DIRECTOR

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF SOLLATEK ELECTRONICS (KENYA) LIMITED

Opinion

We have audited the financial statements of Sollatek Electronics (Kenya) Limited, set out on pages 7 to 19 which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss, statement of change s in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summa "Y of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the ccompany as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance **Vwith** the International Financial Reporting Standard for Small and Medium-sized Entities and the Kenyan Companies Ac t, 2015 .

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities uncl er those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements sectio .n of our report. We are independent of the company in accordance with the International Ethics Standards Board for Ac c ountants ' Code of Ethics for Profess ional Accountants (IESBA Code) together with the ethical requirements that are rele1,ant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance **with** these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsib le for the other information. The other information comprises the directors' report and the schedule of expenditure but does not include the financial statements and our aud itor's report thereon.

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

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

Responsibilities of Directors for the Financial Statements

The directors are responsib le for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

....continued on page 5

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF SOLLATEK ELECTRONICS (KENYA) (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Other matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on pages 2 and 3 are consistent with the financial statements.

Pl V

Certified Public Accountants
Mombasa } -, _ **2019**
CPA Piyush Ramesh Devchand Shah, Practising certificate No. 1521. Signing partner responsible for the independent audit

0118/2019

STATEMENT OF PROFIT OR LOSS

	Notes	2018 Shs	2017 Shs
Revenue	3	493,876,947	414,816,426
Cost of sales		(289,930,913)	(276,498,152)
Gross profit		203,946,034	138,318,27 4
Administrative expenses		(72,216,696)	(66 ,603 ,523)
Other operating expenses		(9,657,014)	
Operating profit	4	122,072,324	71,714,751
Finance costs	6	(23,320,296)	(23,562 ,190)
Profit before tax		98,752,028	48,152,561
Tax charge	7	(30,061,957)	(15,245,433)
Profit for the year		68,690,071	907,128

The notes on pages 11 to 19 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 6.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2018 Shs	2017 Shs
EQUITY			
Share capital	8	50,000,000	50,000,000
Retained earnings		214,615,847	145,925,776
Equity attributable to owners of the company		264,615,847	195,925,776
Non-current liability			
Borrowings	9	43,573,039	67,808,097
		308,188,886	263,733,873
REPRESENTED BY			
Non-current assets			
Plant and equipment	12	47,644,223	16,275,291
Deferred tax	10	456,004	362,542
		48,100,227	16,637,833
Current assets			
Inventories	13	424,853,544	306,411,145
Trade and other receivables	14	105,557,027	110,662,508
Cash and cash equivalents	15	723,267	137,250
Tax recoverable		1,905,587	0
		533,039,425	417,210,903
Current liabilities			
Trade and other payables	16	4,422,659	1,889,472
Borrowings	9	267,130,786	166,263,015
Other accr ued liabilities	11	1,397,321	1,962,376
		272,950,766	170,114,863
Net current assets		260,088,659	247,096,040
		308,188,886	263,733,873

The financi l st ents on pages 7 to 19 were approved and authorised for issue by the Board of Directors on) lf- 0£ 1 2019 and were signed on its behalf by:

RECTOR

DIRECTOR

SOLLATEK ELECTRONI'"'5 (KENYA) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

CONTENTS **PAGE**

COMPANY INFORMATION

BOARD OF DIRECTORS	Christopher R. L. Soper Mohamed S. N. Abdulla
REGISTERED OFFICE	Plot No. 6244/IMN Sollatek Building Main Mombasa - Malindi Road P. 0. Box 83313 - 80118 Mombasa Telephone: (020) - 3501671/2 Fax: (020) - 3501673 E-mail: sales@sollatek.co.ke
INDEPENDENT AUDITOR	PKF Kenya Certified Public Accountants P. 0. Box 90553 - 80100 Mombasa
COMPANY SECRETARY	Equatorial Secretaries and Registrars Certified Public Secretaries P. 0. Box 90553 - 80100 Mombasa
PRINCIPAL BANKERS	Commercial Bank of Africa Limited Mombasa Equity Bank Limited Mombasa Diamond Trust Bank Kenya Limited Mombasa

REPORT OF THE DIRECTORS

The directors submit their report together with the financial statements for the year ended 31 December which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activities of the company are assembly, sale and service of electrical items.

BUSINESS REVIEW

During the year 2017 the total turnover of the company increased from Shs 412,110,127 to Shs 414,816,426 This was despite the political instability due to elections and slowing down of orders from certain customers. The profit before tax increased from Shs 1,845,792 to Shs 48,152,561

As at 31 December 2017, the net asset position of the company was Shs 263,733,873 (2016: Shs 246,977,557).

Key performance indicators	**2017**	**2016**
Turnover (Shs)	414,816,426	412,110,127
Gross profit (Shs)	138,318,274	109,355,503
Gross profit margin	33%	27%
Profit for the year (Shs)	32,907,128	560,594
Net profit margin	1.28%	0.15%
Net assets (Shs)	263,733,873	246,977,557

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment remains positive in the short-term despite the challenging business environment. The company's strategic focus is to enhance sales growth whilst maintaining profit margins. The success of which remains dependent on overall market conditions customers.

In addition to the business risk discussed above, the the company's activities expose it to a number of risks including credit risk, cash flow and liquidity risk and operational as set-out below:

Credit risk

The company's principal financial assets are cash and bank balances and trade and other receivables. company's credit risk is primarily attributable to its trade receivables. The amounts presented in the sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there identified loss event which, based on previous experience, is evidence of a reduction in the cash flows. The credit risk on cash and bank balances is limited because the counterparties are banks credit-ratingsassigned by credit-rating agencies. The company has no significant concentration of credit with exposure spread over a number of counterparties.

..............Continued on page 3

REPORT OF THE DIRECTORS {CONTINUED)

Cash flow and foreign currency risk

The company's trade is done both in Kenya Shillings and in foreign currency, where the company is exposed to currency risk. The risk is managed through appropriate operational offset of open receivable and payable foreign currency positions.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company monitors its need for cash on a regular basis and takes appropriate action through appropriate financing arrangements.

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2016: Shs Nil)

DIRECTORS

The directors who .h eld office during the year and to the date of this report are shown on page 1.

In accordance with the company's Articles of Association , no director is due for retirement by rotation.

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to ea1_h director at the time this report was approved:

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

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

TERMS OF APPOINTMENT OF THE AUDITOR

PKF Kenya continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of Shs 616,500 has been charged to profit or loss in the year.

BY ORDER OF THE BOARD

lyv"0:,u .»-!::J,

MOMBASA

2?fd- **2018**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors accept responsibility for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and in the manner required by the Kenyan Companies Act, 2015. They alsc accept responsibility for:

i. Desi gni!1g, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free frcim material misstatement, whether due to fraud or error;
ii. Selecting and applying appropriate accounting policies; and
iii. Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordanc:2- with the International Financial Reporting Stand ard for Small and Medium-sized Entities and the requirement : of the Companies Act, 2015.

In preparin£i these financial statements the directors have a .;;essed the company's ability to continue as a going concen. Nothing h2.s come to the attention of the directors to indicate, that the company will not remain a going concern for at least the next twelve months from the date of this statement.

The director :,; acknowledge that the independent audit of the financial statements does not relieve them of their responsibilih ;•s.

Approved by the board of directors on 2 '7(' 1 .:'.) c..- /U 2018 signed on its behalf by:

.N/ il'f rJ_JJ J J 1/

DIRECTOR DIRECTOR

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF SOLLATEK ELECTRONICS (KENYA) LIMITED

Opinion
We have audited the financial statements of Sollatek Electronics (Kenya) Limited, set out on pages 7 to 20 which comprise the statement of financial position as at 31 December 2017, the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opin ion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the Kenyan Companies Act, 2015.

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

Other Information
The directors are responsible for the other information. The other information comprises the directors' report and the schedule of expenditure but does not include ihe financial statements and our auditor's report thereon.

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

In connection with our a:.idi'. of the financial statements, our responsibilty is to read the other information and, in doing so, consider whether other information is materially inconsistent with the financial statements or our knowledge obtained in the a11di t, or otherwise appears to tie materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Dirnctors for the Finan <,i al Statements
The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the requirements of the Kenyan Companies Act, 2015 , and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

..........continued on page 5

Tel +254 41 2226422/3 • 2314007 • 2313269 • 2315846/97 • Mobile +254 724 / 733 563668 • Email pkfmsa@ke.pkfea.com www.pkfea.com
PKF KENYA• 1st Floor• Pereira Building • Pramukh Swami Maharaj Road • P O Box 90553 • 80100 • Mombasa • Kenya

Partners: Rajan Shah, Atul Shah, Alpesh Vadher, Piyush Shah, Ritesh Mirchandani•, David Kabeberi, Charles Oguttu··_ Asif Chaudhry. Ketan Shah··, Michael Mburugu, Gurmit Santokh, Darshan Shah, Salim Alibhai, Larian Abreu, Patrick Kuria, Nishith Gautam Shah, Jalpesh Shah, Erick Njuguna, Peter Kahi, Ajay Chandria ("Indian, --sritish, ·--ugandan)

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF SOLLATEK ELECTRONICS {KENYA) (CONTINUED)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive tọ, ; ose risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The ri k of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances , but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast signifi1.;ant doubt on the company's ability to continue as a going concern. lfwe conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are, inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the aujit and significant audit findings, including any significant deficiencies in internal control that we identify duri1 g :iur audit.

Report on other matters prescribed by the Kenyan Companies Act, 2015
In 0ur opinion the information given in the report of the directors on pages 2 and 3 is consistent with the financial ststements.

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

py-J=- \I v' _,"

Certified Public Accou; 'ts J
Mombasa

21 /Ylo 2018

128/2018

STATEMENT OF PROFIT OR LOSS

	Notes	2017 Shs	2016 Shs
Revenue	3	414,816,426	412,110,127
Costs of sales		(276,498,152)	(302,754,624)
Gross profit		138,318,274	109,355,503
Other operating income	4		444,687
Administrative expenses		(66,603,523)	(72,777,261)
Other operating expenses		-	(7,293,906)
Operating profit	5	71,714,751	29,729,023
Finance costs	7	(23,562,190)	(27,883,231)
Profit before tax		48,152,561	1,845,792
Tax charge	8	(15,245,433)	(1,285,198)
Profit for the year		32,907,128	560,594

The notes on pages 11 to 20 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 6.

STATEMENT OF FINANCIAL POSITION

	Notes	2017 Shs	2016 Shs
		As at 31 December	
EQUITY			
Share capital	9	50,000,000	50,000,000
Retained ear11ings		H_§_,925,776	113,018,§48
Equity attributable to owners of the company		925,776	16 ,018,648
Non-current liability			
Borrowings	10	67,808,097	83,958,909
		263,733,873	246,977,557
REPRESENTED BY			
Non-current a.ssets			
Plant and equipment	13	16,275,291	17,641,249
Deferred tRx	11	362,542	509,468
		16,637,833	18,150,717
Current asse::s			
Inventories	14	306,411,145	280,187,037
Trade and othE,r r< ceivables	15	110,662,508	113,922,354
Cash and cas , equivalents	16	137,250	271,770
Tax recovera,b:e		0	10,419,580
		417,210,903	404,800,741
Current liabilities			
Trade and other payables	17	1,889,472	5,311,386
Borrowings	10	166,263,015	168,965,107
Other accrued liabilities	12	1,962,376	1,697,408
		170,114,863	175,973,901
Net current asset		247,096,040	228,826,840
		263,7 33,873	- £3,977,557

The financial statements on pages 7 to 20 were approved and authorised for issue by the Board of Directors on),.;3 - A Aj 2018 and were signed on its behalf by:

-.....,.... DIRECTOR

DIRECTOR

L. -

The notes on pages 11 to 20 form an integral part of these financial

Report of the independent auditor - pages 5 - 6.

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	Retained earnings Shs	Total Shs
Year ended 31 December 2017			
At start of year	50,000,000	113,018,648	163,018,648
Profit for the year	-	32,907,128	32,907,128
At end of year	50,000,000	145,925,776	195,925,776
Year ended 31 December 2016			
At start of year	50,000,000	112,458,054	162,458,054
Profit for the year		560,594	560,594
At end of year	50,000,000	113,91_8,6 _	163,018,648

Report of the independent auditor - pages 5 - 6.

STATEMENT OF CASH FLOWS

	Notes	2017 Shs	2016 Shs
Cash flows from operating activities			
Profit before tax		48,152,561	1,845,792
Adjustments for			
Depreciation on property, plant and equipment (Note 13)		1,403,797	1,800,766
Impairment of property, plant and equipment		9,753	20,605
Loss/(profit) on disposal of property, plant and equipment		80,999	(444,451)
Interest expense (Note 7)		23,562,190	27,414,969
Changes in working capital:			
- inventories		(26,224,108)	(46,161,690)
- trade and other receivables		3,259,846	16,607,368
- trade and other payables		(3,421,914)	(22,814,746)
- other accrued liabilities		264,968	(69,437)
Interest paid		(23,562,190)	(27,414,969)
Tax paid		(42,462)	(20,638)
Net cash from/(used in) operating activities		23,483,440	(49,236,431)
Cash flows from investing activities			
Cash paid for purchase of property, plant and equipment	13	(836,500)	(4,129,421)
Proceeds from disposal of property, plant and equipment		707	1,055,484
Net cash used in investing activities		(128,589)	(3,073,937)
Cash flows from financing activities			
Proceeds from borrowings		47,120,000	50,836,112
Repayments of borrowings		(35,303,954)	
Net cash (used in)/from financing activities		11,816,046	50,836,112
Decrease in cash and cash equivalents		35,170,89₮	(1,474,256)
Movement in cash and cash equivalents			
At start of year		(150,948,457)	(149,474,202)
Decrease		_ 5, 170,897	(1,474,255)
At end of year		(115,777,560)	(150,948,457)

The notes on pages 11 to 20 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 6.

NOTES: SIGNIFICANT ACCOUNTING POLICIES

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

Transition to the IFRS for SMEs

The company's financial statements for the year ended 31 December 2017 are its first annual financial statements prepared under accounting policie s that comply with the i nternational Financial Reporting Standard for Small and Medium-sized Entities. The financial statements of the previous period were prepared in accordance with full International Financial Reporting Standards. There are no material changes during the transition.

1. *General information*

The company is a limited liability company incorporated and .domiciled in Kenya. The address of its registered office and its principal place of business is in Mombasa, Kenya. The principal activity of the company is that of assembling, selling and seNicing of electrical items.

2.a) Basis of preparation

The financial statements of Sollatek Electronics (Kenya)." Limited have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) with early adoption of the 2015 amendments to the standard. The early adoption has not resulted in any prior period restatements or other material changes in presentation.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with the IFRS for SMEs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policie s. Areas involving a higher degree of judgement or complexity, or areas where-assumptions and estimati·: ns are significant to the financial statements, are disclosed in note 2 (b).

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

Going concern

The financial performance of the company is set out in the directors' report and in the statement of profit or loss. The financial position of the company is set out in the statement of financial position.

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

b) Key sources of estimation uncertainty

The company makes estimates and assumptions concerning the future . The resulting accounting estimates will, by definition , seldom equal the related actual results.

The 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 disclosed below.

NOTES: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b} **Key sources of estimation uncertainty (continued)**

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

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

c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the company's activities . Revenue is shown net of value-added tax and discounts.

The company recognises revenue when: the amount of revenue can be reliably measured; ii is probable that future economic benefits will flow to the entity; and specific criteri21 have been met for each of the company's activities.

i) Sale of goods are re cognis ed upon delivery of products and custom er acceptance;
ii) Interest income is accrued by reference to time in relation to the principal outstanding and the effective interest rate applicable.

d) Property, plant and equipment

All property, plant and aqL.:ipment 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.

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 period in which they are incurred.

Depreciation is calculated on reducing balance basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	Rate¾
Leasehold land and buildings	Over unexpired period of lease (straight line)
Motor vehicles	25
Furniture, fittings and equipment	12.5
Computer equipment	30

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.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

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 profiUloss.

NOTES: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Impairment of non-financial assets other than inventories

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that an asset may be impaired, the carrying value of the asset (or cash generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recogriised for the amount by which the asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are companied at the lowest levels for which there are seperately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

f) Financial assets

Receivables are initially recognised at the transaction price (less transaction costs). Most sales are made on the basis of normal credit terms, and the receivables do not bear interest.

At the end of each reporting period, the carrying amoun ts of receivables are reviewed to determine whethe;· there :s any objective evidence that the amounts are not recoverable. If so, an impairment loss is recogn•sed immediately in profit or loss.

g) Cash and cash equivalents

For ths purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and cash at bank net of bank overdrafts.

h) Financial liabilities

Financial liabilities are initially recognised at the transaction price (less transaction costs). Trade payables are ol>i i gations on the basis of normal credit terms and do not bear interest.

i) Inventories

lnventcries are stated at the lower of cost and net realisable value.Cost is determined by the first-in- first-out (FIFO) method.The cost of finished goods and work-in-progress comprises all costs attributable to bringing the inventory to their current location and condition, but excludes borrowings costs.Net realisable value is the estimate of the selling price in the ordinary course of business , less the costs of completion and selling expenses .

At each reporting date, inventories are assessed for impairment. If inventory is impaired , the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

j) Borrowings

Borrowings are recognised initially at the transaction price (that is, the present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expen se is recognised on the basis of the effect ive interest method and is included in finance costs.

Borrowings 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 reporting date.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the year of the lease .

l) ***Translation of foreign currencies***

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the statement of financial position date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

m) Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or in equity. In this case, the tax is also recognised in other comprehensive income and equity.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax is recognised on temporary differences (other than temporary differences associated with unremi'.ted earnings from foreign subsidiaries and associates to the extent that the investment is essentially permanent in duration, or temporary differences associated with the initial recognition of goodwill) arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

Offsetting

An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off the amounts and the entity can demonstrate without undue cost or effort that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.

n) Share capital

Ordinary shares are classified as equity.

o) Employee benefit obligations

The company has a defined contribution plan. A defined contribution plan is a plan under which the company pays fixed contributions into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient asset to pay all employees the benefits relating to employee service in the current and prior periods.

The company and its employees also 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.

r) ***Comparatives***

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

3. Revenue

	2017 Shs	2016 Shs
Revenue from sales of goods	414,816,426	412,110,127

4. Other operating income

Interest income		236
Profit on disposal of property, plant and equipment		444,451
		444,687

5. Operating profit

The following items have been charged/(credited) in arriving at operating profit:

Depreciation on property, plant and equipment (Note 13)	1,403,797	1,800,766
Auditors' renumeration:		
- current year	616,500	705,500
- (over)/under provision in prior year	(54,000)	51,501
Directors' emoluments	17,803,800	17,803,800
Impairment of property, plant and equipment	9,753	20,605
(Loss)/profit on disposal of property, plant and equipment	(80,999)	444,451
Staff costs (Note 6)	_3A02,210	3,140,780

6. Staff costs

Staff leave days accrual (Note 12)	264,968	(69,437)
Pension costs:		
- defined contribution scheme	3,031,252	3,101,757
- National Social Security Fund	105,990	108,460
	9,4_Q2,210	3,140,780

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

	No.	No.
Sales and distribution	29	34
Management and administration	9	9
	38	43

7. Finance costs

	2017 Shs	2016 Shs
Net foreign exchange (gain)/loss	(1,810,812)	468,262
Interest expense:		
- bank overdraft	21,011,534	29,697,757
- other loans	4,361,468	1,292,053
- shareholders' loans		(3,574,841)
	23,562,190	27,883,231

NOTES (CONTINUED)

8. Tax

	2017 Shs	2016 Shs
Current tax	2,527,764	1,123,223
Deferred tax charge (Note 11)	146,926	_Jfil_. 75
Tax charge	2,674,690	1,289,198

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

	2017 Shs	2016 Shs
Profit before tax	48,152,561	1,845,792
Tax calculated at a tax rate of 30% (2016: 30%)	14,445,768	553,738
Tax effect of:		
- expenses not deductible for tax purposes	799,665	731,460
Tax charge	15,245,433	_1,28§_,j 9

9. Share capital

	2017 Shs	2016 Shs
Authorised, issued and fully paid:		
2,500,000 (2016: 2,500,000) ordinary shares of Shs 20 each	50,000,000	50,000,000

10. Borrowings

The borrowings are made up as follows:

	2017 Shs	2016 Shs
Non- current		
Loan from external sources	16,488,884	17,744,880
Loans from shareholders (Note 18 (iii))	51,319,213	66,214,029
	67,808,097	83,958,909
Current		
Loan from external sources	30,631,116	17,744,880
Bank overdraft (Note 16)	135,631,899	151,220,227
	166,263,015	168,965,107
Total borrowings	234,071,112	252,924,016

The borrowings are secured by the following:

a) Bank overdraft:

i) First ranking legal charge for Shs 85,000,000 over Plot No. 6244/IMN Mombasa.

ii) Fixed and floating debenture over the company's assets for Shs 150,000,000.

iii) Personal guarantees and indemnities of the directors for Shs 150,000,000.

b) Loans from shareholders: unsecured.

c) Loan from external sources: unsecured

11. Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2016: 30%). The movement on the deferred tax account is as follows:

	2017 *Shs*	2016 *Shs*
At start of year	(509,468)	(671,443)
Charge to profit or loss (Note 8)	146,926	161,975
At end of year	(362,542)	(509,468)

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

	At start of year Shs	*(Credited)/* charged to profit or loss Shs	At end of year Shs
Deferred tax assets			
Provisions	(509,221)	210,641	(298,580)
Property, plant and equipment	(247)	(63,715)	(63,962)
Net deferred tax asset	(509,468)	146,Q?6	(362,542)

Deferred tax liabilities and deferred tax assets for the various assets or liabilities above relate to income in the same jurisdiction and the law allows net settlement. They have therefore been offset and shown as a net asset in the statement of financial position.

12. Other accrued liabilities

	Outstanding staff **leave days accrual** 2017 Shs	 2016 Shs
At start of year	1,697,408	1,766,845
Charge/(credit) to profit or loss (Note 6)	264,968	J69,437)
At end of year	1,962,376	1,697,408

13. Property, plant and equipment

	Leasehold land Shs	Buildings Shs	Motor vehicles Shs	Furniture, fittings and equipment Shs	Computer equipment Shs	Total Shs
Cost						
At start of year	2,500,000	12,116,864	3,490,000	4,358,869	5,699,610	28,165,343
Additions		-	570,000	118,300	148,200	836,500
Disposals			(1,000,000)		(291,024)	(1,291,024)
Impairment		-			{202,500}	{202,500}
At end of year	2,500,000	12.116.864	_3,060,000	4,477,169	5,354,286	27,508,319
Depreciation						
At start of year	460,253	2,229,205	872,500	2,375,317	4,586,819	10,524,094
On disposals	-		(250 ,000)		(192,747)	(442,747)
Impairment				-	(252 ,116)	(252, I16)
Charge for the year	28,728	139,263	609,375	262,732	363,699	1,403,797
At end of year	488,981	2,368,468	_1_,2 31,875	_2,638_,Q'li)_	4,505,655	11,233,028
Net book value						
As at 31 December 201;	2,011,019	9,748,396	1,828,125	1,839,120	848,631	16,275,291
As at 31 December 2011	2,039,747	9,887,659	2,617,500	1,983,552	1,112,791	17,641,249

Leasehold land amounting to Shs 2,500,000 has been pledged as security against borrowings as disclosed in Note 10.

14. **Inventories**

	2017 Shs	2016 Shs
Finished goods	135,746,395	106,024,718
Goods in transit	170,664,750	174,162,319
	306,411,145	280,187,037

15. **Trade and other receivables**

Trade receivables	72,275,110	100,536,543
Prepayments	2,339,362	944,103
Other receivables	5,675,739	3,654,736
Advance payments to suppliers	30,372,297	8,786,972
	1101662,50	113,922,354

NOTES (CONTINUED)

16. **Cash and cash equivalents**

	2017 Shs	2016 Shs
Cash and bank	246,032	27J,7JQ

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

Cash and bank	246,032	271,770
Bank overdraft (Note 10)	(135,631,899)	(151,220,227)
	(135,385,867)	(150,948,457)

17. **Trade and other payables**

Trade payables	1,047,132	4,288,510
Accruals	842,340	1,022,876
	1,889,472	5,311,386

18. **Related party transactions and balances**

The following transactions were carried out with related parties:

i) Interest rebate - shareholders		(3,574,841)

ii) **Key management compensation**

Salaries and other short term employment benefits	17,839,855	17,875,077
Pension costs: defined contribution scheme	912,000	528,365
	18,751,855	18,403,442

iii) **Loans from shareholders**

At start of year	66,214,029	50,867,677
Advances	-	27,000,000
Repayment	(14,894,816)	(8,078,807)
Interest rebate		(3,574,841)
At end of year (Note 10)	51,319,213	.. 66,214,029

The loans from shareholders are subject to interest at 0% p.a. (2016: 19% p.a.) have no specific of repayment and are unsecured.

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

iv) Amount due to director

	2017 Shs	2016 Shs
At start of year		2,671,875
Repayments		(2,671,875)
At end of year		

19. *Incorporation*

Sollatek Electronics (Kenya) Limited is incorporated. in Kenya under the Kenyan Companies Act as a private limited liability company and is domiciled in Kenya.

20. *Presentation currency*

These financial statements are presented in Kenya Shillings (Shs}.