KENYA

AA KENYA PUBLIC LIMITED COMPANY

AA KENYA Public Limited Company (AA KENYA PLC) is incorporated as a public company limited by shares under the Companies Act of Kenya. Registration Number PLC-R2SZ9A
AA KENYA PLC is a subsidiary of Automobile Association Holdings Public Limited Company (previously referred to as the Automobile Association of Kenya)

INFORMATION MEMORANDUM

11th October 2023

In respect of

The Restricted Offer of 7,762,881 shares at an offer price of KES 25.80 to the members of AA KENYA Holding Company Limited and an additional 3,681,999 shares at par to the employees of AA Kenya Plc

This Information Memorandum is issued by AA KENYA PLC (the "Issuer") in respect to the issue of shares in AA KENYA PLC and has been prepared in accordance with the Capital Markets Act (cap 485A), the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 and the Companies Act, 2015.

Inspiring Mobility

IMPORTANT NOTICE

THIS DOCUMENT IS IMPORTANT FOR MAKING A DECISION TO INVEST AND REQUIRES YOUR CAREFUL ATTENTION AS IT INCLUDES IMPORTANT INFORMATION AND TIMELINES.

1. This document is a Short Form Prospectus inviting applications for 11,444,880 shares of par value KES 8 in AA Kenya PLC in a Restricted Public Offer, under the terms outlined herein.
2. This Short Form Prospectus and the accompanying Share Application Form are presented to you to enable you to make an informed decision on the Restricted Public Offer and includes information on acceptance, application and payment.
3. Eligible persons contemplating subscribing for the shares are encouraged to seek professional advice from, without limitation, including but not limited to your investment banker, stockbroker, portfolio manager, investment advisor, commercial banker or other financial consultant.
4. This Short Form Prospectus contains information that is provided in compliance with Capital Markets Act (cap 485A), the Capital Markets (Securities) (Public Offers, Listing And Disclosures) Regulations, 2002 and the Companies Act, 2015.
5. The Issuer has received relevant approvals from the Capital Markets Authority of Kenya with regards to the use of this Short Form Prospectus for the purpose of this Restricted Public Offer as required by Section 30B of the Capital Markets Act (cap 485A). In approving the Short Form Prospectus, the Capital Markets Authority does not take responsibility for the disclosures made.
6. If you wish to apply for the shares on offer, then you must complete the procedures set out in Chapter 1: THE OFFER of this Short Form Prospectus.
7. The Lead Transaction Advisor has relied on information provided by AA Kenya PLC and accordingly has given and not withdrawn their consent to the inclusion of their name, in the form and context in which it appears. The Directors of AA Kenya PLC accept responsibility for the Restricted Public Offer and the information in this Short Form Prospectus.
8. Investment in AA Kenya PLC entails risk that can affect the value of the investment positively or negatively. Investors' investment objectives and financial positions vary. The past performance of the company as presented here do not indicate future returns. Prior to investing in AA Kenya PLC, eligible persons should carefully consider Chapter 7: MATERIAL RISKS AND RISK FACTORS together with all other information contained in this Short Form Prospectus and any other publicly available information.
9. "Forward-looking statements" relating to AA Kenya PLC's business can be identified by the use of the forward-looking terminology such as "projected" or "target" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. These statements are subject to certain risks, uncertainties and assumptions and the actual results, performance or achievements can be materially different from those that are expressed or implied by such forward-looking statements. AA Kenya PLC and its advisors do not intend to, and do not assume any obligation to update any industry information or forward-looking statements set out in this Short Form Prospectus.

10. No person has been authorised to give any information or to make any presentations other than those contained in this Short Form Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised.
11. Neither the delivery of this Short Form Prospectus nor any sale made under this Short Form Prospectus nor any sale made under this Short Form Prospectus in any circumstances in any circumstances implies that there has been no change in the affairs of AA Kenya PLC since the date of this Short Form Prospectus or that the information contained in this Short Form Prospectus is correct as of any time after its date.
12. Enquiries concerning this Short Form Prospectus, Share Application Form and other documents may be made to AA Kenya PLC or the Placing Sales Agents whose contact details are set out in this Short Form Prospectus.
13. The individual members of the Board of Directors of AA Kenya PLC being the persons named in section 3.1 of this Short Form Prospectus have taken all the reasonable care to ensure that the facts stated herein are true and accurate in all material aspects and that there are no other material facts whose omission would make any statement herein, whether of fact or opinion, misleading. All the directors of AA Kenya PLC accept full responsibility accordingly.
14. AA KENYA PLC hereby gives an undertaking that if at any time during the tenor of the Restricted Public Offer there is a significant change affecting any matter contained in this Short Form Prospectus whose inclusion would reasonably be required by existing or potential investors, AA KENYA PLC shall prepare an amendment or supplement to this Short Form Prospectus or circulate a replacement Short Form Prospectus.

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DEFINITIONS AND ABBREVIATIONS

AAK PLC or "the Issuer/Offeror"	AA Kenya Public Limited Company, the company offering shares for subscription
Director (s)	The director(s) of AA Kenya Public Limited Company
FIA	Federation Internationale de l'Automobile
KES/KES	Kenyan Shillings, the lawful currency of the Republic of Kenya
NTSA	National Transport and Safety Authority
Promoter/AAK HoldCo	Automobile Association Holdings PLC the majority shareholder in AAK PLC.
RPO	Restricted Public Offer, Offer of shares to restricted investors
Short Form Prospectus	This document as presented to the shareholders of Automobile Association Holdings PLC.
Target Investors/ Eligible Shareholders	Shareholders of Automobile Association Holdings PLC i.e., any person who is a subscriber to the memorandum and articles of Automobile Association Holdings PLC and appears on the register of members of Automobile Association Holdings PLC as of **March 31 2022.** Current employees of AA Kenya Plc

TRANSACTION ADVISORS AND SERVICE PROVIDERS

Lead Transaction Advisor & Placing Agent

Standard Investment Bank Ltd
JKUAT Towers, 16th Floor, Kenyatta Avenue
Tel: +254 29 222 8963
P.O. Box 13714-00800, Nairobi, Kenya
Email: advisory@sib.co.ke
Website: www.sib.co.ke

Legal Advisor

MMC ASAFO
MMC Arches, Spring Valley Crescent, Off Peponi Road, Westlands
P.O. Box 75362-00200, Nairobi, Kenya
Website: www.asafoandco.com

Reporting Accountant

PKF Kenya
Kalamu House, Grevillea Grove, Off Brookside Drive, Westlands
PO Box 14077 - 00800, Nairobi
Tel: +254 20 427 0000, +254 73 214 4000
E-mail: pkfnbi@ke.pkfea.com

Website: www.pkfea.com

Share Registrar

EFS Registrars (formerly CDSC Registrars)
1st Floor Occidental Plaza, Muthithi Road P O Box 6341-00100 Nairobi
Phone: +254 20 258 8000/ +254 710 888 000
E-Mail: Registrar@cdscregistrars.com

Receiving Bank

Equity Bank of Kenya Limited
9th Floor, Equity Centre, Hospital Road, Upper Hill
P.O. Box 75104-00200, Nairobi, Kenya.
Tel: +254 76 306 3000
Email: info@equitybank.co.ke
Website: www.equitygroupholdings.com

CORPORATE INFORMATION

Name:	AA Kenya PLC (Formerly **AUTOMOBILE ASSOCIATION OF KENYA** (the Society))
Legal Form:	Public Company with Limited Liability
Registration Number:	PLC – R2SZ9A
Date of Incorporation:	28th November 2022
Registered Office:	AA House L.R. No. 209/12325, Imara Daima Airport North Road P.O. Box 40087, 00100, Nairobi Tel: - +254 20 6979000 Email: aak@aakenya.co.ke
Company Secretary:	Victoria Cherotich Chief Executive Officer Image Registrars
Legal Advisors:	MMC ASAFO MMC Arches, Spring Valley Crescent, Off Peponi Road, Westlands P.O. Box 75362-00200, Nairobi, Kenya
Auditors:	PKF Kenya PO Box 14077 - 00800, Nairobi Tel: +254 20 427 0000, +254 73 214 4000 Email: pkfnbi@ke.pkfea.com Website: www.pkfea.com Contact: FCPA Chaudhry Mohammed Asif Practicing Number: 2059
Main Bankers:	Equity Bank of Kenya Limited 9th Floor, Equity Centre, Hospital Road, Upper Hill P.O. Box 75104-00200, Nairobi, Kenya. Tel: +254 76 306 3000 Email: info@equitybank.co.ke Website: www.equitygroupholdings.com Cooperative Bank of Kenya Co-operative House P.O. Box 48231 - 00100, Nairobi, Kenya Tel: +254 020 277 6000, +254 70 302 7000 Email: customerservice@co-opbank.co.ke Website: https://www.co-opbank.co.ke/
Nominal Share Capital:	245,466,600
Issued Share Capital:	30,683,325
Financial Year End:	31st December

STATEMENT FROM THE CHAIRMAN

Dear Investor,

On behalf of the Board of Directors, it gives me great pleasure to extend this invitation to invest in AA Kenya PLC through this Restricted Public Offer.

In 2021, AA embarked on defining its Strategic Plan for 2022 – 2026. One of the key strategic focus areas was to scale the business through diversification and expansion, and align AA Kenya to other AA clubs globally. To successfully deliver on this, AA identified the need to restructure its business (through transition from a Society to a PLC), and thereafter, raise capital. Today, I am proud to report that AA is fully demutualized, and its business and assets transferred from Automobile Association of Kenya (the Society) to AA Kenya PLC. Effectively, this means that our legal form has changed from a member driven to a share driven organization.

The next step of this journey is inviting you, our shareholders to invest in AA Kenya PLC. This Restricted Public Offer is a one of the greatest milestones in the 104-year history of AA Kenya.

About AA Kenya

AA Kenya was established in 1919 under the Queen's Act and given the mandate to support mobility in East Africa. The organization started off by guiding navigation of roads in East Africa. Today, the company has evolved to a mobility powerhouse, providing mobility solutions to the Government, parastatals, corporates and individuals. Our main offerings include: driving school, vehicle valuation and inspection, membership and road rescue, defensive driver programs, garage inspection and certification, tracking and fleet management and vehicle service centres. AA has over the years remained the exclusive issuer of international driving licenses and car passports (carnet de passage) in Kenya. AA also provides guidance on vehicle running costs through AA Mileage Rates. As a member of the Federation Internationale de l'Automobile (FIA), which brings together all AA clubs globally, AA Kenya continuously benchmarks and aligns its offerings to international best practice. FIA represents over 100 million motorists and their families globally, and brings together 243 international motoring and sporting organizations from 146 countries on 5 continents. AA has a network of 57 branches across the country, and one subsidiary, AA Insurance Brokers.

Overview of our Strategy

The 2022 – 2026 Strategy is anchored on a core objective to diversify and scale the business. Our main strategic initiatives include:

- Diversification of our product and service offerings
- Expansion our geographical footprint within Kenya, and Eastern Africa
- Innovations in the area of mobility, aligned to lessons learned from AA Spain, AA Austria and other AA's globally

- Full automation of the business with the objective of enhancing customer experience
- Roll out of a mobility-centre of excellence, the Africa School of Mobility, aligned to our vision to be the trusted mobility solutions leader in Africa

Restricted Public Offer Information

This RPO follows approval by AA members at an Extraordinary General Meeting (EGM) held on 19th October 2021. The Offer is restricted to shareholders of Automobile Association Holdings and will run from 11th October to 27th November 2023. The projected capital raise of Kes 200,282,330 will fund AA's strategic projects including diversification into new lines of business including service centres, expansion of AA's geographical footprint, digitization of the business and set up of the mobility centre of excellence.

With support from current shareholders, the Board's track record in steering the company's sustained growth, and expertise within the organization, AA is well poised to achieve these strategic objectives. Through this Offer, I invite you to be part of AA's promising future.

I would like to express my appreciation for support we have received from the Capital Markets Authority, the Nairobi Securities Exchange, our shareholders and advisors in this endeavour.

Sincerely

Mr. Jinaro Kibet

Chairman, AA Kenya PLC

DIRECTORS' DECLARATION

We, the Directors of AAK PLC, whose names appear on section 3.1 of this Short Form Prospectus, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with facts and does not omit anything likely to affect the import of such information.

We further declare that statements contained in this Short Form Prospectus are correct and the Board of Directors minutes audit reports and or any other internal documents do not contain information which could distort the interpretation of this Short Form Prospectus.

We confirm that in our opinion, the business is a going concern and is sustainable going forward given the financial position of the business as of the date of this Short Form Prospectus.

Mr. Jinaro Kibet Chairman, AA Kenya PLC 11th October 2023	Mr. Francis Theuri Managing Director, AA Kenya PLC 11th October 2023

1. THE OFFER

1.1 The Offer Timetable

Activity		Date and Time
1.	Extra Ordinary General Meetings	19th October 2021
2.	Board Approval of RPO to members & other incidental transactions	19th October 2021
3.	Board Approval of RPO to Employees & other incidental transactions	7th September 2023
4.	Approvals from the CMA	22nd September 2023
5.	Dispatch of offer documentation to Application centres	9th October 2023
6.	Offer Opens Commencement of Distribution of Short Form Prospectus and Share Application Forms to eligible shareholders	11th October 2023
7.	Offer Closes Last date for acceptance and payment for shares.	27th November 2023
8.	Final Allotment	5th December 2023
9.	Announcement of the results of the offer	8th December 2023
10.	Dispatch of share certificates for the fully paid AAK PLC shares and processing of Refunds (if applicable, Refund Date)	8th December 2023

1.2 Eligible Investors

The Restricted Public Offer is an invitation to the shareholders of Automobile Association Holdings Company Ltd (AA HoldCo) to purchase shares in AA Kenya Public Limited Company (AAK PLC). AAK PLC is a wholly owned subsidiary of AA HoldCo as of the date of this Short Form Prospectus. The shareholders of AA HoldCo hold an ownership interest in AAK PLC through their shareholding in AA HoldCo. In the opinion of AAK PLC, the shareholders of AA HoldCo have a good understanding of the business and have the capacity to make an informed investment decision in respect of this offer.

The Restricted Public Offer is an invitation extended to various eligible investors to purchase shares in AAK PLC (AA Kenya Public Limited Company). AAK PLC is a wholly owned subsidiary of Automobile Association Holdings Company (AA HoldCo) as of the date of this Short Form Prospectus.

Eligible investors for this offer include:

i. Shareholders of AA HoldCo: The shareholders of AA HoldCo hold an ownership interest in AAK PLC through their shareholding in AA HoldCo. In the opinion of AAK PLC, the shareholders of AA HoldCo have a good understanding of the business and have the capacity to make an informed investment decision in respect of this offer.

ii. Employees of AAK Group: shares will also be made available to employees, acknowledging their significant role in driving the substantial growth of the business. The employees of AAK PLC are considered to have a deep understanding of the company's operations and the ability to make well-informed investment decisions pertaining to this opportunity.

1.3 Key Offer Information

Item	Commentary
Par Value of each share (KES) before share split	1000
Share Split Ratio	1:125
Par Value of each share after share split (KES)	8
Total number of issued shares before the share split	100
Total number of issued shares after the share split (12,500) and new share issue (30,670,825)	30,683,325
Per Share Offer Price to Members (KES)	25.80
Number of Shares on Offer to AAH Members	7,762,881
Per Share Offer Price to Employees (KES)	8.00
Number of Shares on Offer to AAK Employees	3,681,999
Issued and full paid-up shares before the offer	30,683,325
Share Capital as of 30 September 2023 (KES)	245,466,600
Net Book Value of Assets as of 30 June 2023 (KES)	351,073,964
Per Share Net Book Value of Assets as of 30 June 2023 (KES)	11.44
Net Comprehensive Earnings for the year ended 30 June 2023 (KES)	36,373,632
Net Earnings per Share for the year ended 30 June 2023 (KES)	1.19
Issued and fully paid-up shares assuming offer is fully subscribed	30,683,325
Gross proceeds of offer assuming full subscription	Kes 229,738,322
Fully Paid-Up Share Capital after offer assuming share subscription	Kes 245,466,600

1.4 Reasons for the Offer

One of the key strategic focus areas was to scale the business through diversification and expansion, and align AA Kenya to other AA clubs globally. To successfully deliver on this, AA identified the need to restructure its business (through transition from a Society to a PLC), and thereafter, raise capital. It is against this backdrop that AA Kenya seeks to raise capital through this Restricted Offer.

The second objective behind this offer is to provide our employees with a chance to become owners of the business, recognizing their pivotal role in driving our growth and fostering a deeper sense of ownership and commitment among them.

The proceeds of this offer shall be invested in the following areas:

Use of Proceeds	
Use	**Amount (Kes "000")**
Expansion of Branch Network	51,550
AA Service Centres	50,000
Africa School of Mobility	60,000
Digitization	38,450
Transaction Advisors Fee	29,738
Total	**229,738**

The fees to the various parties in the transaction are as follows;

Fees	Amount (Kes)
CMA Approval	344,608
Lead Transaction Advisor	3,000,000
Reporting Accountant	1,400,000
Tax Advisor	600,000
Various Legal Advisors	4,000,000
Restructuring costs	5,100,000
Marketing Activities	10,000,000
Miscellaneous Expenses	3,793,714
Valuations	1,500,000
Total	**29,738,322**

1.5 Basis of the Offer Price

The offer price has been determined by the Company in consultation with the Transaction Advisor on the basis of two valuation techniques, namely Discounted Cash flow approach (DCF) and Market Multiples approach. Furthermore, the offer price also took into consideration the current macro-economic outlook and historical and projected financial performance of the Company.

The Offer Price was arrived at after taking into consideration several factors including, but not limited to:

i. The historical financial performance of the Company
ii. The future growth projects of the business
iii. Kenya and the region's macro-economic outlook
iv. The Discounted Cash flow (DCF) methodology to determine the intrinsic value of the Company;
v. The current and projected economic environment
vi. Valuations of similar businesses
vii. Comparable company's performance Multiples.

1.6 Governing Law

The offer documents and any contracts resulting from the acceptance of an application to purchase shares on offer shall be governed by and construed in accordance with the laws of Kenya. It shall be a term of each such contract that the parties thereto and all other interested parties submit to the exclusive jurisdictions of the Courts of Kenya.

1.7 Credit Support Offered to the Securities Issuance

The Issuer has not liaised with any financier to avail lending facilities to eligible investors wishing to finance the purchase of shares on offer through obtaining loans. The particulars of the borrowing arrangements shall remain the preserve of each investor and the lending party. AAK shall not bear any responsibility towards any claims arising from such arrangements.

2. THE OFFEROR

2.1 Background

AA Kenya PLC is a public limited company incorporated in Kenya. As of the date of this Short Form Prospectus, the company is wholly owned by Automobile Association Holdings PLC, which was incorporated in 2022. Automobiles Association Holdings PLC (AAH) was formed as a result of the demutualization process in 2021, wherein the 1807 members of the previous Automobile Association of Kenya became the owners of Automobile Association Holdings PLC (AAH). The Automobile Association of Kenya was founded in 1919 as the Royal East Africa Automobile Association of Kenya with the aim of promoting the interests of motorists. Today, the company has evolved to provide a wide range of mobility offerings as provided in section 2.4 of this Short Form Prospectus, including driving school, vehicle valuation and inspection, membership and road rescue, defensive driver programs, garage inspection and certification, tracking and fleet management and vehicle service centres, issuance of international driving licenses and car passports (carnet de passage) and guidance on vehicle running costs through AA Mileage Rates. The business intends to leverage on its expertise to penetrate the vehicle servicing market and expand its footprint locally and in East Africa.

2.2 Vision, Mission and Values

Vision

The trusted mobility solutions leader in Africa

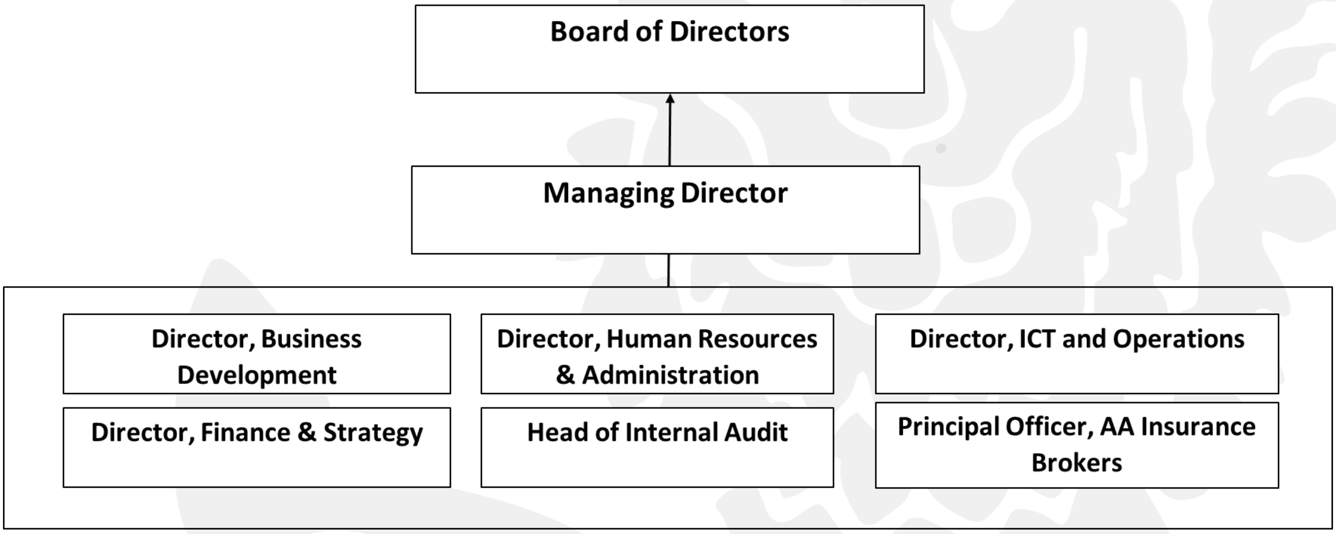
Mission

To provide all-inclusive mobility solutions

Values

- *Our customers come first:* We exists to serve our members. We make every decision and measure every outcome based on how well it serves our customers
- *Integrity:* We uphold the highest standards of integrity, ethics and social responsibility.
- *We are innovative:* We never settle — in everything we do, we challenge our ideas on what is possible to meet and exceed customer expectations
- *We uphold professionalism:* We set high quality standards and strive to exceed them. We deliver results and celebrate our successes.
- *We value collaboration:* Our success depends on the collective energy and contributions of all our team members. We proactively build and maintain a culture of collaborative team work.

2.3 Corporate Structure



2.4 Service Offerings

AA Kenya PLC serves a diverse clientele including individuals, corporates and governments. The company offers a wide range of motoring solutions including:

2.4.1 Membership

AA is the market leader in provision mobility related services under the umbrella of membership. This is in line with one of our core objectives to provide all-inclusive mobility solutions to both our customers and the public at large. Our membership offerings include the following:

- Free access to airport VIP lounges worldwide
- Free ground and air ambulances from AMREF Flying Doctors
- Free tows on mechanical breakdown
- Exclusive access to AA products such as International Driving Licenses and Car Passports (carnet de passage)
- Free road safety programs
- Discounts on fuel, vehicle service and repair

These offerings are provided in alignment to other AA Motoring Clubs world-wide.

2.4.2 Driver Training

The AA Kenya driving school, founded in 1962, is the oldest driving school in Kenya. The driving school has developed a reputation for its commitment to safe and responsible driving. The driving school offers beginner, refresher and endorsement training for drivers across Categories A, B and C of vehicles as provided for by the National Transport Safety Authority (NTSA). The school has grown to offer other additional services including; Driver assessment which examines driver's competency before issuing them with a certificate of competence, Premier driving school tailor made clients who need personalized attention and Driver recruitment where it links competent drivers to potential employers. AA Kenya's driver training and assessment programs are recognised by Governments, International organisations and corporate bodies in Kenya, and trains over 25,000 students annually.

2.4.3 Vehicle Inspection and Valuation

AA Kenya pioneered vehicle inspection and valuation in Kenya in the 1970s. AA Kenya continues to set standards in the motor vehicle valuation industry, a service whose demand has been growing at a great pace due to the increase in the number of motor vehicles on Kenyan roads. Valuation services are also required for asset financing to purchase motor vehicles, determination of court bonds, dispute resolution, accident assessments, and determination of the road worthiness of vehicles.

2.4.4 Defensive Driving, Road Safety and Motor Transport Management

AA offers advanced training to professional drivers and practitioners in the motor transport industry. These programs are aimed at empowering individuals and businesses with advanced knowledge related to driving, road safety and transport management. The main programs include:

- Defensive Driver Training tailored to upskill licensed drivers with Smart Driving skills
- Hazardous Material, Oil, Gas Safety Training
- Valuation and Inspection Program
- Driver Instructors Program
- Plant Operator Program
- Motor Transport Courses including Motor Transport Management, Effective Fleet Management, Vehicle Care and Maintenance
- Basic Vocational Skills including Motor Vehicle Mechanics, Motor Vehicle Electrical trade tests grades 1-3.
- Soft Skills in Driving including Customer Experience, Communication Skills and Professional Etiquette which are paramount for commercial and professional drivers.
- Specialized Vehicle and Profession Courses including Emergency Vehicle Operations, Executive Driving Course

2.4.5 Towing and Recovery Services

AA is the market leader in provision of towing services in Kenya. This is in line with one of our core objectives to make the motoring space safe for both our customers and the public at large. AA offerings in this area are structured into the following areas:

- Accident scene management services;
- Road assistance - includes basic mechanical repair services to a motorist to enable him/her reach their destination or a garage;
- Towing services – involves carrying a vehicle from its location to another; and
- Recovery services – retrieval of a vehicle off the road e.g., from a ditch.

2.4.6 Driver Assessment and Recruitment

AA Kenya is renowned for carrying out effective driver assessments and offering remedial training to professional drivers. Assists organisations assess & recruit competent drivers.

2.4.7 Insurance Brokerage

Through its subsidiary, the AA Insurance Brokers Limited (AAIB), the company has been offering motor and non-motor insurance brokerage services for both organisations and the individuals since 1990.

2.4.8 Fleet Management

The company offers vehicle tracking and fleet management solutions focused at managing overall costs through maximum, cost-effective utilization of resources such as vehicles, fuel, spare parts, etc. This solution allows businesses and individuals to track and control their vehicles through an online computer, smart phone or tablet on a 24/7 basis using Global Positioning System (GPS) satellites. Further to the vehicle tracking offering, Fleet Management provides vehicle maintenance and driver management.

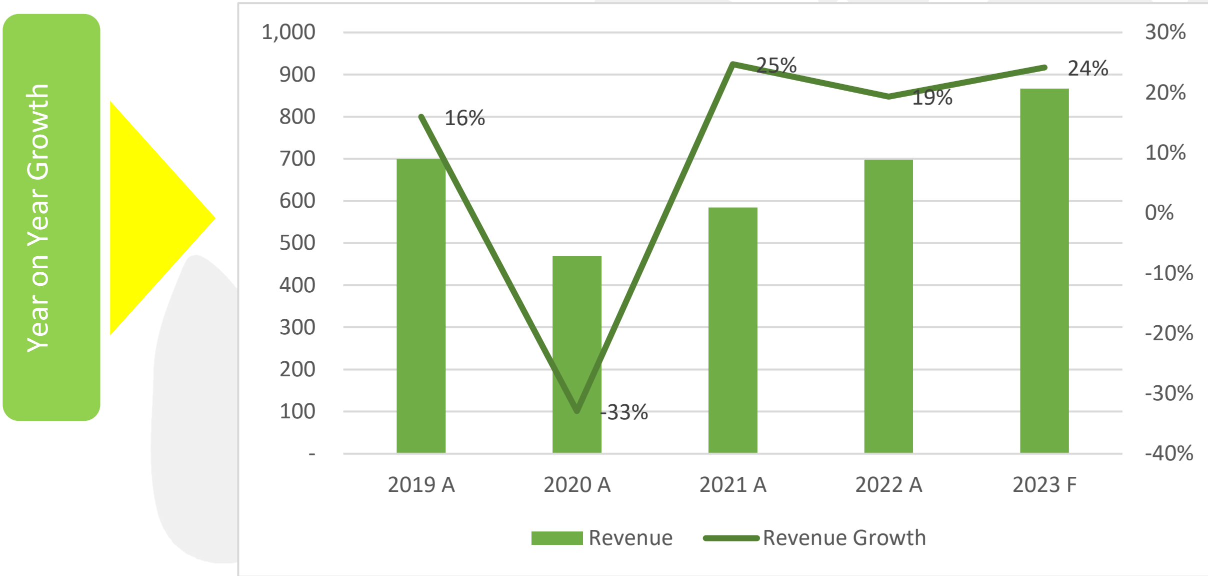
2.4.9 Touring and Licensing

AA Kenya is a member of the Federation Internationale de l'Automobile (FIA) and the Alliance Internationale de Tourismé (AIT). AIT deals with issuance of international travel documents, specifically the sale of the Carnet de Passages en Douane (Car Passports) to its constituent member clubs. The Carnet de Passages en Douane is a custom document for the purpose of temporary importation of vehicles in to a country, it may be likened to a passport for cars and the owner of a car is able to cross borders without customs prohibition.

Due to AA Kenya's relationship with these institutions, AA Kenya is the sole issuer of International Driving Permits (IDP) and Carnet de Passage (Car Passports) to local and international drivers/car owners.

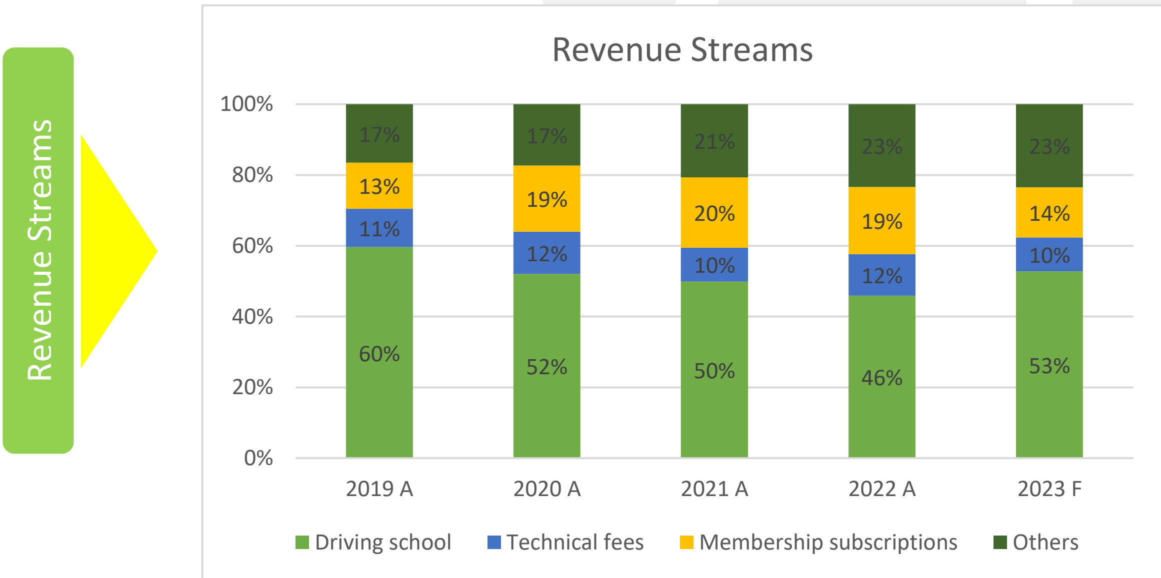
2.5 Highlights of recent financial performance

Figure 1: Business growth resumes post covid



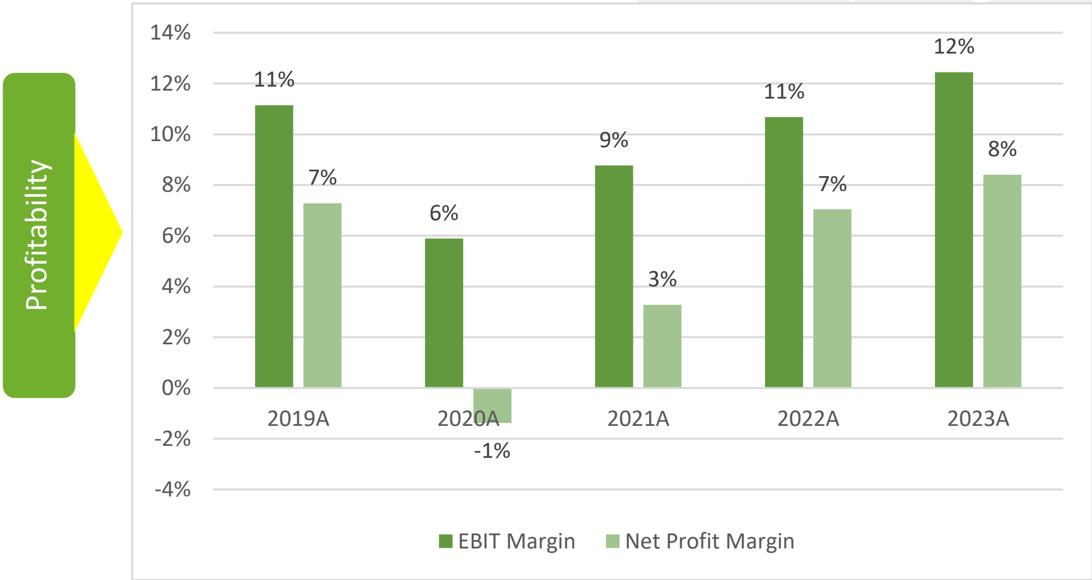
* 2023 F represents the annualised half year financial performance

Figure 2: Fairly diversified revenue streams built on core competencies



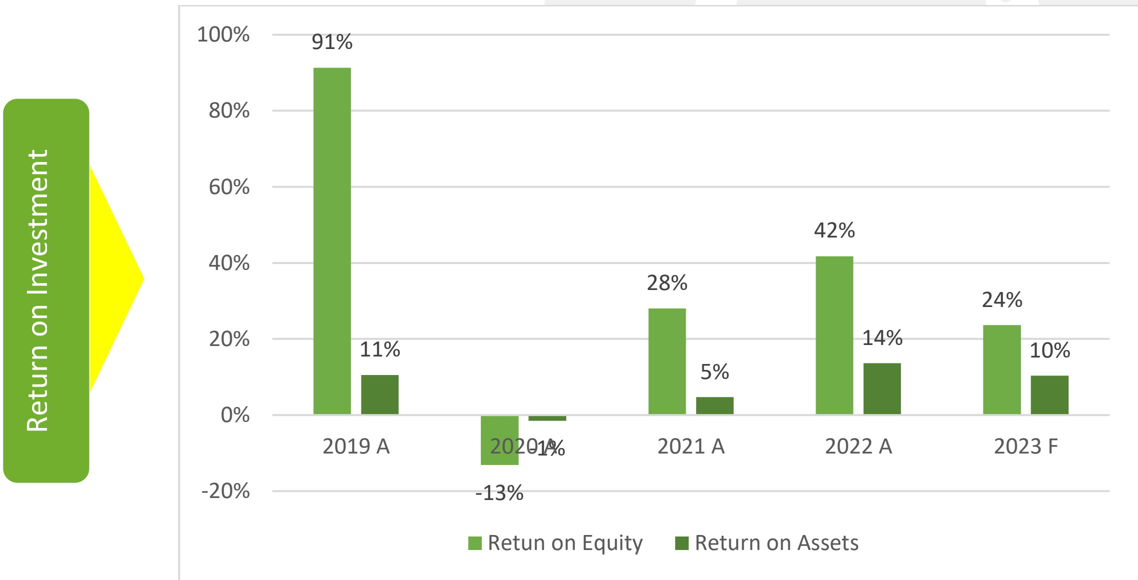
* 2023 F represents the annualised half year financial performance

Figure 3: Sustained profitability in the face of macroeconomic challenges



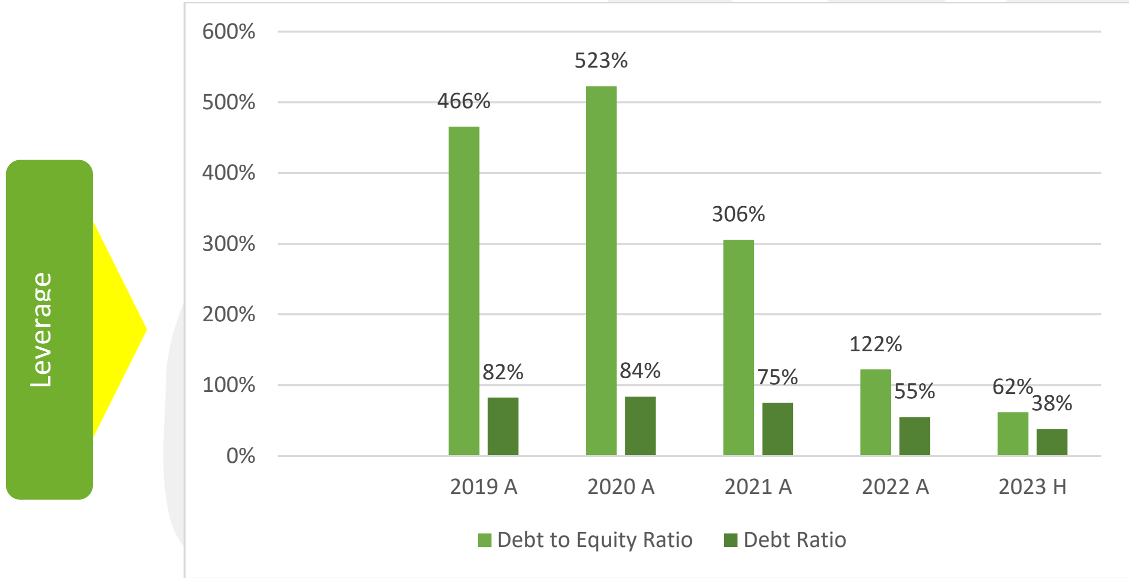
* 2023 F represents the annualised half year financial performance

Figure 4: Creating value for capital invested in the business



* 2023 F represents the annualised half year financial performance

Figure 5: Conservative deployment of debt relative to asset base and equity



* 2023 H represents the half year capital ratio's

2.6 Material Changes in the Business of the Issuer

In 2020, Automobile Association of Kenya (the Society, AA Kenya) began the process of transforming from a member owned Association to a shareholder owned limited liability company. The process ultimately resulted in the incorporation of AA Kenya Plc which took over the operation of the Society's business.

2.7 AA Kenya's Strategic Plan (2022-2026)

The company's strategic plan was developed against the backdrop of the Covid-19 pandemic that disrupted businesses and lives globally at an unprecedented scale. The plan was primarily motivated by:

1. The need to diversify and scale operations
2. Changes in the operating environment
3. Defining the foundation to drive future growth of the business.

These objectives informed the six strategic pillars on which the strategic plan was based. The pillars are;

a. Profitable and Sustainable growth
b. Customer Centricity and Strategic Partnerships
c. Digital Transformation and Innovation
d. Operational Excellence, Risk and Compliance
e. Engaged and Productive Human Capital
f. Road Safety and Corporate Social Responsibility

Some of the key strategic initiatives aligned to these pillars include:

- Diversification of AA Service Offerings
- Expansion of the AA Branch Network
- Establishment of the Africa School of Mobility
- Regional Expansion into East Africa
- Digital Innovations in the area of Mobility
- End-to-end automation of the business, among other initiatives.

Through these strategic pillars, the company aims to achieve the following goals over the next five years:

- Kshs. 5.8 billion in cumulative revenue
- Footprint expansion from 32 to over 70 locations
- Enhanced Customer Satisfaction Index to 90%
- Increased Customer Retention rates to 95%
- A single and integrated view of the AA customer
- Enhanced employee productivity
- Full digitization of front and back-office operations
- An embedded risk management culture with 95% compliance levels across all branches and departments

2.8 Principal Future Investments

2.8.1 Service Centres

The number of registered vehicles in Kenya increased by an average of 28,223 units every month in 2021, with imports of used cars going up 21 percent and 78,304 units being shipped into Kenya despite the rise in prices of vehicles due to disruption of global supply chains occasioned by COVID-19 and geopolitical challenges globally. The increased number of vehicles on roads is being accompanied by a growing demand for the auto-service and spare parts in Kenya. The average age of Kenya's national fleet is 15 years. This makes majority of cars in Kenya in need for regular servicing and repairs. The Kenya Revenue Authority (KRA) predicts that there will be over five million motor vehicles on Kenyan roads by 2030. This means more manpower to address current and expected rising motor vehicle repair needs. A significant proportion of local garages lack qualified personnel creating need for more modern service centres. AA Kenya seeks to fill the gap by opening 5 service centres in Nairobi, Kisumu, Nakuru, Eldoret and Mombasa.

2.8.2 Expansion of Branch Network

AA Kenya currently has 43 branches across 26 counties in Kenya. This makes AA Kenya the Driving School with the widest geographic reach in Kenya. AA Kenya seeks to expand its branch network to over 70 by leveraging on a combination of agency and direct expansions. AA Kenya also intends to expand into the East African region.

2.8.3 Innovations in Valuation, Mileage and Rapid Rescue and Accident Scene Management

Fraudulent claims continue to be a significant challenge facing the Insurance industry. According to the Insurance Regulatory Authority (IRA), thirty per cent (39 of 127) insurance fraud cases reported in 2020 related to the motor insurance category. This is in comparison to thirty-eight per cent (46 of 121) insurance fraud cases arising from motor insurance reported in 2016.

Insurance companies have set up measures including technology to combat the menace, with the Association of Kenya Insurance (AKI) launching a mobile platform in 2021, for filing accident claims using geolocation features that allow users to upload videos and photos from the scene of the accident together with police abstracts, identification card and driving license.

AA Kenya seeks to position itself strategically to provide visibility to insurers on what happens in the event of an accident by supporting the insured customer and providing assurance to the insurer on the authenticity of the accident details; through its proposed rapid rescue and accident scene management innovation.

Also, with the number of licensed motor assessors ever increasing, AA Kenya seeks to introduce technological innovations into its valuation business unit, so as to gain competitive advantage in the industry. Insurers in Kenya have launched online motor vehicle insurance platforms that allow clients to remotely apply for insurance policies. AA Kenya seeks to create a self-service vehicle valuation platform and an “Uber for Valuation” that will bring valuation services to their clients’ door step, enhancing customer experience and taking advantage of the technological advancements at play within the industry.

2.8.4 The Africa School of Mobility

AA Kenya looks at growing the AA Institute into a Centre of Excellence, which will be designed to serve all Kenyan mobility needs. The school will increase its course offering and structure training into five schools; School of Road Safety, School of Plant Operation, School of Inspection and Valuation, School of Engineering and School of Mobility (Regional Training Centre). This investment will see AA Institute diversify its course offerings, which will increase its competitiveness within the mobility education industry in Kenya.

2.8.5 Product Innovation

There have been significant technological developments in the recent past and the Automotive Industry has not been left out in adopting technology in both production and customer service. AA Kenya seeks to introduce significant innovations to its products including;

a. Self-Valuation Application
   This will provide a self-service vehicle valuation platform to AA Kenya's clients, enabling them to conduct their vehicle valuation at their convenience and at a cheaper cost. This is in line with most underwriters' move to introduce online insurance application platforms that will see car owners register and apply for insurance covers remotely.
b. Mobile valuation application ("Uber for valuation")
   In a bid to enhance turn-around-times and improve valuation customers' experience in line with AA Kenya's second Strategic Pillar (Customer Centricity), the application will see AA Kenya bring its valuation services right to the customers' door step. This move will see customers receive more personalized services that fit into their convenience.
c. Accident Scene Management Application
   With an increasing number of fraudulent insurance claims, the application shall solve insurance companies' greatest claims problem, lack of visibility at the accident scene. On top of providing assurance to the insurer on the authenticity of the accident, the application will support insured customers at the accident scene, ensuring that AA Kenya rescue team arrives at the scene in time to collect all necessary evidence, liaise with the police officers and obtain all required documentation.
d. Garage Application
   AA Kenya currently performs inspection, certification and appointment of garages to service AA Kenya's clients. The garage application will enable consumers to trace nearby approved garages conveniently.
e. Driving School eLearning Application and Driving School Test Preparation Application
   AA Kenya's Driving School eLearning and Test Preparation applications, which has already been initiated, will be significantly resourceful to students and trainers in preparation of the standardized tests. The innovation will see AA become an early entrant into driving school eLearning (being offered by very few driving schools currently), giving them a competitive advantage over their competition in
f. Customer App and ERP
   AA Kenya will be implementing an enterprise resource planning system and a one-stop shop customer application to automate both front and back-office operations. These initiatives are aimed at ensuring operational efficiency through managing operational costs and reducing turnaround times in service delivery.

2.9 SWOT Analysis

In light of the above product and service innovations and the prevailing market conditions, the business has identified its internal strengths and weaknesses alongside other opportunities and threats that accrue within the market. The table below provides a snapshot of the same;

Strengths	Weaknesses
• Strong brand name with 104 years of heritage • A wide branch network with strategic presence in locations with dense population and high commercial activity. • Diversity in service offering • Exclusive provider of international travel documents – the international driving license and carnet de passage (car passport • Strong brand presence • International affiliation as a member of FIA	• Inadequate deployment of technology.
Opportunities	**Threats**
• Regional and local branch network expansion • Leveraging technology to improve both the customer experience and efficiency of internal processes. • Underexplored business lines including vehicle servicing, fleet management and supporting the insurance sector.	• Inadequate funding to take advantage of arising business opportunities. •

3. GOVERNANCE

3.1 The Board of Directors

BOARD CHAIRMAN

Mr. Jinaro Kibet is a legal practitioner with a wealth of expertise in corporate governance. He serves as a director in AAIB, a subsidiary of AA KENYA PLC and is a delegate at the Federation International de l'Automobile (FIA). He is the senior partner in charge of corporate and Commercial Law at TripleOKlaw LLP, a Kenyan law firm. Mr. Jinaro currently serves as a board member at Unga Limited and the Kenya Pipeline Corporation. He holds a Bachelor of Law and a Diploma in Legal studies.

BOARD MEMBER AND MANAGING DIRECTOR

Mr. Francis Theuri is known for visionary, innovative and transformative leadership. He is a highly respected thought leader with wide knowledge and experience in strategic leadership, corporate finance and restructuring, performance management and banking. Has demonstrable ability to inspire and motivate stakeholders behind the vision of an institution to achieve exceptional performance.

Mr. Theuri holds an MBA in Strategic Management and a Bachelor of Arts Degree in Economics and Mathematics. He is an Associate of UK Chartered Institute of Bankers, and a Fellow of Kenya Institute of Banker. He is also a member of Kenya Institute of Management. He has over 20 years of senior leadership experience gained from working in blue chip companies, growing through the ranks to senior leadership levels including General Manager and Managing Director roles. He has worked in Barclays Bank (now ABSA), Co-operative bank, Housing Finance Group, and Liberty Commercial Bank.

Mr. Theuri has sat on various Boards including in Conservation, Education, Wildlife & Parks, Insurance, Safari Rally, Hotels, among others. He is a Delegate of Federation Internationale de l'Automobile (FIA) and the Treasurer African Council for Tourism and Automobiles (ACTA).

BOARD VICE CHAIRMAN

Mr. Samuel Gachoka's adds strategic leadership expertise to the board. He serves in the Finance & Strategy, Road Safety and Procurement & Legal committees. Mr Gachoka, is currently the General Manager at Sigona Golf Club and a director at Elimu Digital Media. His passion for education is evident in his previous board memberships at Mirera and Wandubi Secondary Schools. Mr. Gachoka is also a previous member of the Management Committee at Hells Gate National Park. He holds a Bachelor Arts and a Diploma in Sales and Marketing**.**

BOARD MEMBER - Non-Executive Director

Eng. Erastus Mwongera possesses vast experience in management at the board level. He serves in the Finance & Strategy and Pension board committees of AA Kenya Plc. Mr. Mwongera is a consultant at EM Baseline Consultant and a director at Hillside Green Growers and Exporters Co Ltd. Previously, he was Board Chair at Linksoft Integrated Services (EA), Board Chair at Sameer Africa plc and Trustee at the KEPSA Foundation. He also possesses great understanding of Kenya's transport sector having served as Board Chair at KENHA and Board Member at the Engineers Board of Kenya. He holds a Bachelor Science in Civil Engineering, a Diploma in Construction and a Diploma in Water Engineering.

BOARD MEMBER - Non-Executive Director

Dr. Manoj Shah has tremendous experience in the Automotive, Hospitality, Heath, Trading, Finance and Property Development sectors. He serves as Chair of the Road Safety committee and member of the Finance & Strategy and Procurement & Legal committees of AA Kenya Plc. He is the Group MD at Kingsway Group of Companies, Board Chair at MP Shah Hospital and Board Chair at the Tribe Hotel. He holds a Bachelor in Business Administration.

BOARD MEMBER - Non-Executive Director

Mr. Jonathan Bett is an experienced finance and accounting professional. He serves as chair of the Finance & Strategy committee and is a member of the Human Resources committee of AA Kenya Plc. Mr. Bett also serves as a director of AAIB. Mr. Bett is a council member at the Riara University and a Director at Rafiki Microfinance Bank.

He is former CEO of the Kenya Deposit Insurance Corporation, a former director of the Central Bank of Kenya and former head of the External Debt Division at the National Treasury. He holds a Bachelor of Commerce and is a Certified Public Accountant.

BOARD MEMBER - Non-Executive Director

Mr. Charles Waithima is an experienced legal practitioner. He serves in the Finance & Strategy, Human Resource and Procurement & Legal committees of AA Kenya Plc. He is an advocate of the High Court of Kenya and the Managing Partner at C.G Waithima and Co. Advocates. He holds a Bachelor of Law and a postgraduate diploma in Legal Practice.

BOARD MEMBER - Non-Executive Director

Mr. Gerald Gakima is an experienced audit and corporate management professional. Mr. Gakima is the East Africa Market Lead- Government and Public Sector at KPMG. He has previously held various leadership roles including Finance Manager and Company Secretary at MEC Coal PTE Ltd Group, ICPAK Finance & Strategy Committee Member and Board Member at Mhasibu Property Limited. He holds an MBA in Corporate Management, Bachelor of Commerce in Financial Management. He is a Certified Public Accountant and is pursuing the Certified Public Secretary designation.

BOARD MEMBER - Non-Executive Director

Mrs. Beatrice Rariewa is a seasoned human resource practitioner. She serves as a member of Human Resource and the Procurement & Legal board committees of AA KENYA Plc. Mrs Beatrice is the Managing Partner at Human Asset Consultants. She has previously led the Human resources functions in Wartsila Eastern Africa Ltd, the Standard Group and K-Rep Bank Ltd.

She holds a Master's degree in Entrepreneurship, a Bachelor's degree in Business Administration and Economics and a higher diploma in Human Resources Management.

BOARD MEMBER - Non-Executive Director

Rev. Harun Ngere is a well-respected spiritual and community leader with expertise in strategic management. He serves in the Audit, Risk & Governance and the Procurement & Legal committees at AA KENYA Plc. Mr. Ngere also serves in the clergy at St. Andrew's PCEA Church. He is an author and also coaches & mentors to many in the community he serves. He holds an MBA in Strategic Management, a Bachelor of divinity and a Diploma in Theology.

BOARD MEMBER - Non-Executive Director

Mr. Samuel Waweru's expertise is in climatology and strategic management. He serves in the Finance & Strategy, Road Safety and the Procurement & Legal board committees at AA KENYA Plc. Mr. Waweru is a climate expert at Zonal Data Systems. He has previously chaired the Strategic Plan Committee at Wana-anga Sacco. He has also been a board member at several schools and has a good understanding of managing training institutions. He holds a Master in Business Administration and a Bachelor of Science in Meteorology.

BOARD MEMBER - Non-Executive Director

Mr. Stephen Waweru is an experienced entrepreneur in the automotive sector and engineering works. He serves in the Road Safety, Human Resource board committees of AA Kenya Plc. He is also Board Chair at AAIB, as subsidiary of AA Kenya Plc. He is the Managing Director of Axiom Manufacturers and Stephens Engineering Works Ltd. He is also a Director at Auto Drive Parts & Accessories Ltd. He holds an Executive Bachelors of Business Management and a Diploma in Agricultural Engineering.

BOARD MEMBER - Non-Executive Director

Mr. Samuel Kamau adds strength to the organisational management strength of the board. He is an experienced finance and accounting professional. He serves as a member of the Road Safety and Audit, Risk & Governance board committees at AA Kenya Plc. He is also a director at AAIB. He is an Executive Director at African Fine Coffees. He holds an MBA in Strategic Management and a board member at the World Coffee Research and the Global Coffee Platform. He has previously managed the PCEA Kikuyu Hospital.

Bachelors of Arts in Economics and Mathematics. He is a Certified Public Accountant and a Certified Financial Analyst.

BOARD MEMBER - Non-Executive Director

Mr. Julius Ngugi is an experienced banker and finance professional in the region. He serves in the Human Resource, Pension and Audit, Risk & Governance committees of AA Kenya Plc. Mr. Ngugi has previously managed Bank Operations at Azania bank. He has also been a General Manager in charge of Bank operations at Housing Finance Group and a Senior Manager at Standard Chartered Bank. He holds an MBA in Marketing and a Bachelor of Arts Degree in Economics.

3.2 Corporate Governance Practices

Governance is the means by which the affairs of an institution are directed and managed thereby promoting corporate accountability and business aptness, so as to achieve an optimal shareholder value whilst simultaneously taking into consideration the interests of other stakeholders. It is premised on the principles of integrity, accountability, prudence and openness.

The Board of Directors is at the core of the Company's system of corporate governance and is ultimately accountable and responsible for the performance and affairs of the Company. Good corporate governance is regarded as critical to the success of the business of the Company and the Board is unreservedly committed to applying the fundamental principles of good governance – transparency, integrity, accountability and responsibility - in all dealings by, in respect of and on behalf of the company.

The Board accordingly embraces the principles of good governance as set out in a number of governance frameworks including the Code of Corporate Governance Practice in Kenya published by the Capital Markets Authority.

Audit & Risk Committee

The Audit and Risk Committee is a standing Committee of the Board comprising Mr. Gerald Gakima, Ms. Beatrice Rariewa, Rev Harun Ngere, Mr Samuel Kamau and Mr Julius Ngugi. Its purpose is to assist the Board of AA Kenya Plc in financial risk management, policy formulation, reviewing and approving major financial transactions, assessing the integrity of financial statements and the effectiveness of financial reporting, and conducting risk management assessments.

Nomination and Human Resources Committee

The Nomination & Human Resource Committee is a standing Committee of the Board comprising Eng. Erastus Mwongera, Mr. Jonathan Bett, Mr. Charles Waithima, Ms. Beatrice Rariewa, Mr Julius Ngugi, and Mr. Stephen Waweru. Its purpose is to assist the Board of AA Kenya Plc in proposing new nominees for the board as and when required and to assess the performance and effectiveness of Directors in the Company.

The Board develops and maintains reporting and meeting procedures for itself and in the future for its committees. Regular Board meetings are held and special meetings could be held as necessary. Board meetings take place at the company's offices unless otherwise decided by the Board. The quorum necessary for the transaction of the business of the Board is three directors present.

3.3 Composition of the Board of Directors

The Board includes executive and non-executive directors so that no individual or company of individuals' interests will dominate the Board's decision-making process.

The following issues are considered in determining the composition of the Board:

- Attaining a desirable ratio of and balance between the number of executive and non-executive directors;
- Ensuring that the Board collectively contains the skills, experience and mix of personalities appropriate to the strategic direction of the Company and necessary to secure its sound performance;
- Experience, knowledge, skills and personal attributes of current and prospective directors in relation to the needs of the Board as a whole;
- Need to constitute effective Board Committees, and
- Succession planning.

3.4 Powers of the Board

Without prejudice to the general powers conferred by the last preceding Article, and so as not in any way to limit or restrict those powers, and without prejudice to the other powers conferred by these Articles, it is hereby expressly declared that the Board shall have the following powers, that is to say:

3.4.1 To pay the costs, charges and expenses preliminary and incidental to the raising of any share or loan capital for the Company.

3.4.2 To purchase or otherwise acquire for the Company any property, rights or privileges which the Company is authorized to acquire, at or for such price or consideration and generally on such terms and conditions as they think fit.

3.4.3 To pay for any property, rights or privileges acquired by or service rendered to the Company, either wholly or partially in cash or with the sanction of the Company in General Meeting, in shares, or in bonds, debentures, debenture stock or other securities of the Company, and any such shares, may be issued either as fully paid up or with such amount credited as paid up thereon as may be agreed upon, and any such bonds, debentures, debenture stock or other securities may be either specifically charged upon all or any part of the property of the Company and its uncalled capital or not so charged.

3.4.4 To secure the fulfilment of any contracts or engagements entered into by the Company, by mortgage or charge of all or any of the property of the Company and its unpaid capital for the time being, or in such other manner as they may think fit.

3.4.5 To appoint and at their discretion remove or suspend such Managing Agents, Managers, Secretaries, Officers, Clerks, Agents and servants for permanent, temporary or special services as they may from time to time think fit and to determine their duties and powers and fix their salaries or emoluments, and to require security in such instances and to such amount as they think fit.

3.4.6 To accept from any Member, on such terms and conditions as shall be agreed, a surrender of his shares or stock, or any part thereof.

3.4.7 To appoint any person or persons (whether incorporated or not incorporated) to accept and hold in trust for the Company any property belonging to the Company, or in which it is interested, or for any other purpose, and to execute and do all such deeds and things as may be requisite In-relation to any such trust, and to provide for the remuneration of such trustees.

3.4.8 To institute, conduct, defend, compound or abandon any legal proceedings by or against the Company or its officers, or otherwise concerning the affairs of the Company, and also to compound and allow time for payment or satisfaction of any debts due, and of any claims or demands by or against the Company.

3.4.9 To make and give receipts, releases and other discharges for money payable to the Company, and for the claims and demands of the Company.

3.4.10 To determine who shall be entitled to sign bills, notes, receipts, acceptances, endorsements, cheques, releases, contracts and documents on behalf of the Company.

3.4.11 To give any officer or other person employed by the Company a commission on the profits of any particular business or transaction, or a share in the general pro fits of the Company.

3.4.12 To enter into all such negotiations and contracts and rescind and vary all such contracts and execute and do all such acts, deeds and things in the name and on behalf of the Company as they may consider expedient for or in relation to any of the matters aforesaid or otherwise for the purposes of the Company.

3.4.13 To delegate to any person or persons any of their powers and discretions and to give to any such person or persons power of sub-delegation and, by power of attorney or otherwise, to appoint any person to be agent of the Company for such purposes and on such conditions as they determine, including authority for the agent to delegate all or any of his powers.

3.4.14 To grant pensions, annuities, gratuities or other allowances on death, sickness, disability or retirement of any person who is or has been employed by or in the service of the Company or any subsidiary company of the Company or of its holding company (if any) and to the widow, family or dependants of such person or to any person who is or has been a Director or other officer of the Company or any such subsidiary company or holding company (if any) and to the widow, family or dependants of such person and the Board may establish and maintain or concur with such subsidiary company or holding company (if any) as aforesaid in establishing and maintaining any schemes or funds for providing such benefits as aforesaid and may pay out of the funds of the Company any premiums, contributions or sums payable by the Company under the provisions of any such schemes or funds.

3.5 Renumeration of the Directors

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

3.6 Statement of Compliance

The Capital Markets Authority published "The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015" ("the Code") on March 4, 2016. In the introductory Section of the Code, it is stated that "The Code has moved away from the "Comply or Explain" approach to "Apply or Explain". This approach is principle-based rather than rule-based, and recognizes that a satisfactory explanation for any non-compliance will be acceptable in certain circumstances. The approach therefore requires boards to fully disclose any non-compliance with the Code to relevant stakeholders including the Capital Markets Authority with a firm commitment to move towards full compliance."

The Company is committed to fully comply with best corporate governance principles and practice and to this end, is taking steps to comply with this published Code within the prescribed period of one year set out in the Code, and in the event this timeline is not achieved as intended, the Board will provide the Capital Markets Authority with a full explanation in terms provided in the Code.

3.7 Senior Management

Director, Human Resource and Administration

Ms. Linda Kenelwa is a highly skilled and experienced Human Resource expert with a background in supporting organizations through Human Capital strategy development and implementation. She is adept in people and culture management, performance management, succession planning, employee relations, benefits administration and office administration.

Ms. Kenelwa holds an MBA in Human Resource Management and a Bachelor's Degree in Education Science. She is a member of the Institute of Human Resource Management. Linda joined AA Kenya as the Director, HR and Administration in January 2018, a position she has served in to date with great success. Prior to this appointment, she worked in the Education and Book Publishing industry for over 12 years in Human Resource Management.

Director, Business Development

Mr. Timothy Keli is a passionate and self-driven professional with over 15 years' experience in the Financial Sector working with leading institutions in Kenya. He is an innovative peak performer with a track-record in Business Development and Transformative Leadership. Timothy holds an MBA in Management Information Systems and a Bachelor's Degree in Mathematics and Computer Science.

Timothy is a Certified Professional Coach accredited by International Coaching Federation (ICF), a qualification that has improved his team performance. Mr. Keli joined AA Kenya as Director, Business Development in April 2018, a position he has served in to date with great success. Prior to this appointment, he had worked in the Banking Industry for over 10 years in Senior Management positions.

Director, ICT and Operations

Ms. Maryanne Njuguna is a senior professional in strategy, operational excellence, project management and performance management. She has over 14 years' experience in organizational development spanning across various industries including financial services, insurance, technology, manufacturing and retail. She is passionate about organizational transformation and change management.

Ms. Njuguna holds a Master's of Science in Management and Organization Development and a Bachelor's Degree in Economics and Business Administration. She joined AA Kenya as Director, Operations and ICT in May 2019 a position she has served in to date successfully. Prior to this appointment, she worked in the various corporates among them Commercial Bank of Africa, PwC and Training Solutions in Senior Management roles.

Ag. Director, Finance and Strategy

Paul Ndungu is a seasoned finance professional with over 20 years of experience in the finance and accounting field. Over the years, he has consistently demonstrated a strong aptitude for financial management, strategic planning, and leadership.

He holds a Bachelor degree in Commerce, a Diploma in Human Resource Management, and CPA K professional certification. Paul joined AA Kenya in 2018. Prior to joining AA Kenya, he worked in the telecommunications business sector for 14 years in accounting roles.

Ag. Head of Internal Audit

Mr. Stephen Ndeto is a professional auditor with over 10 years' experience in Internal Audit and Risk. He holds an MBA in Strategic Management and a Bachelor's Degree in Finance. He is also a CPA finalist. Stephen joined AA Kenya in August 2019. Prior to joining AA Kenya, he worked in various corporates in the Banking and the Hotel Industry.

Principal Officer, AA Insurance Brokers

Mr. Benjamin Nyamai is an accomplished and versatile Insurance Principal Officer with a Master of Science degree in Finance and Investment, a Bachelor of Commerce degree in Finance, a Diploma in Insurance, and he is a member of good standing of the Insurance Institute of Kenya (IIK) and ICPAK.

With an experience of more than 15 years dedicated service in the insurance sector, Benjamin's expertise cut across accounting, auditing, sales, and marketing. He joined AA Kenya in 2021 and to date, has been instrumental in driving the company's insurance operations to new heights. Prior to this, Benjamin worked in the insurance sector holding different management roles.

4. MACROECONOMIC AND INDUSTRY OVERVIEW

4.1 Overview of the Kenyan Economy

Kenya managed to increase its Real Gross Domestic Product (GDP) to 5.5% in 2022 from 7.5% in 2021, attributable to the drought, increased commodity prices, and tight global financial conditions. The growth momentum was driven by the service sector which contributed about 80% of the increase in the total GDP. Financial services, tourism, and transport sectors strongly. According to the latest Kenya Economic Update (KEU), Kenya's GDP growth outpaced that of Sub-Saharan Africa which is estimated to have grown at 3.6% in 2022.

The Kenyan economy demonstrated strong GDP growth despite facing multiple challenges, highlighting its resilience. Like other countries, Kenya dealt with inflation due to volatile commodity prices, global financing constraints, and exchange rate pressure. The economy was further strained by a severe drought, causing widespread food insecurity and harming livelihoods. To navigate these complexities, the country employed macroeconomic strategies including flexible exchange rates, fiscal consolidation, and tighter monetary policy. Despite the pandemic disruption, Kenya's ongoing efforts in fiscal consolidation helped reduce both external and domestic imbalances.

Kenya's medium-term growth prospects are optimistic as the economy recovers from various crises. Predicted GDP growth of about 5 percent aligns with pre-pandemic trends and the estimated potential GDP growth rate. Per capita incomes are set to rise around 3 percent, and poverty should continue its pre-pandemic decline. The growth is expected to be driven by reduced government crowding out due to fiscal consolidation, leading to increased private investment. Still, the outlook is uncertain due to external factors like weak European growth, high global commodity prices impacting imports and inflation reduction costs, and potential financial tightening in advanced economies. Domestic risks involve addressing high living costs and potential tax effort slowdowns.

GDP Growth (Percent %)

	2019	2020	2021	2022	2023
Agriculture	2.7	4.6	-0.2	-1.6	-5.8
Mining & Quarrying	4.3	5.5	18.1	9.3	3.3
Manufacturing	2.6	-0.4	6.9	2.7	2.0
Electricity & Water supply	1.7	0.6	5.0	4.9	2.3
Construction	7.2	10.1	6.6	4.1	3.1
Wholesale & Retail Trade	5.3	-0.5	7.9	3.8	5.7
Accommodation & food services	14.3	-47.7	52.5	26.2	21.5
Transport & Storage	6.3	-7.8	7.2	5.6	6.2
Information &	7.0	6.3	6.1	9.9	8.7
Financial & Insurance	8.1	5.9	12.5	12.8	5.8
Public administration	6.8	-13.7	5.7	4.5	6.6
Professional, Admin & Support Services	6.8	-13.7	5.7	9.4	7.3

	2019	2020	2021	2022	2023
Real estate	*6.7*	*4.1*	*6.7*	*4.5*	*5.2*
Education	*5.7*	*-9.3*	*21.4*	*4.8*	*3.6*
Health	*5.5*	*5.7*	*6.0*	*4.5*	*5.4*
Other services	*4.3*	*-14.6*	*12.6*	*5.7*	*3.0*
FISM	*9.5*	*-1.8*	*5.5*	*1.5*	*0.6*
Taxes on products	*3.9*	*-8.1*	*11.9*	*7.0*	*4.4*

Agriculture

In the first quarter of 2023, the sector expanded by 5.8 percent, marking a notable improvement compared to a contraction of 1.7 percent in the same period of 2022. This growth was driven by favorable weather conditions that enhanced production, particularly in food crops. The sector's positive performance was reflected in a significant increase in vegetable and fruit exports during the reviewed quarter. However, the sector's overall performance was somewhat hindered by declines in milk deliveries to processors, as well as tea, coffee, and sugarcane production. Milk deliveries decreased from 197.5 million litres in Q1 2022 to 166.5 million litres in the reviewed period, indicating reduced production. Tea production declined by 13.0 percent to 118.1 thousand metric tonnes in the reviewed period. Coffee exports also fell by 5.4 percent, reaching 11,284.9 metric tonnes in Q1 2023. Additionally, sugarcane production volume decreased from 2,180.3 thousand metric tonnes in Q1 2022 to 2,171.0 thousand metric tonnes in the quarter under review.

Manufacturing Sector

In the first quarter of 2023, the manufacturing sector is estimated to have grown by 2.0 percent, a decrease from the 3.8 percent growth observed in the same quarter of 2022. The growth in the manufacture of food products was driven by increased production of bakery products and the processing and preservation of fish, expanding by 15.2 percent and 7.2 percent, respectively, during the reviewed period. Likewise, the non-food sub-sector was supported by significant growth in the manufacturing of basic metals and fabricated metal products. Credit provided to manufacturing sector enterprises increased by 14.9 percent, rising from KSh 1,395.6 billion in Q1 2022 to KSh 1,603.7 billion in Q1 2023.

Construction Sector

In the reviewed quarter, the sector experienced slower growth of 3.1 percent, down from the 6.0 percent growth seen in the first quarter of 2022. This deceleration was reflected in a 7.7 percent decline in the volume of cement consumption. Despite the slower growth, there was an increase in the volume of imports of construction materials like bitumen and iron and steel in the first quarter of 2023 compared to the same quarter in 2022. Credit extended to the construction sector also grew, rising from KSh 397.8 billion in Q1 2022 to KSh 414.6 billion in Q1 2023.

Electricity and Water Supply

In the first quarter of 2023, the Electricity and Water Supply sector exhibited slower growth compared to the same period in 2022. The sector's growth rate was 2.3 percent in Q1 2023, down from the 3.2 percent growth observed in Q1 2022. This growth was primarily driven by an increase in electricity production during the reviewed quarter. Notably, there were significant rises in geothermal and wind-generated electricity, which increased by 46.8 percent and 13.5 percent respectively, reaching 1,506.3 million kWh and 546.3 million kWh in Q1 2023. However, electricity generated from thermal and hydro sources decreased, resulting in an overall 0.3 percent rise in total electricity generation to 3,023.4 million kWh in the first quarter of 2023.

Finance and Insurance Activities

In the first quarter of 2023, the Financial and Insurance Activities sector experienced a growth rate of 5.8 percent, down from the 17.0 percent growth in the same quarter of 2022. This growth was influenced by the increase in the Central Bank Rate to 9.50 percent in March 2023, compared to 7.00 percent in March 2022. As a result, commercial banks raised the cost of credit, leading to an average interest rate on loans and advances of 13.09 percent in Q1 2023, up from 12.15 percent in March 2022. The average yield for 91 Days Treasury Bills improved to 9.76 percent in March 2023 from 7.25 percent in March 2022, and the average rate of return on deposits rose from 6.50 percent in March 2022 to 7.60 percent in March 2023.

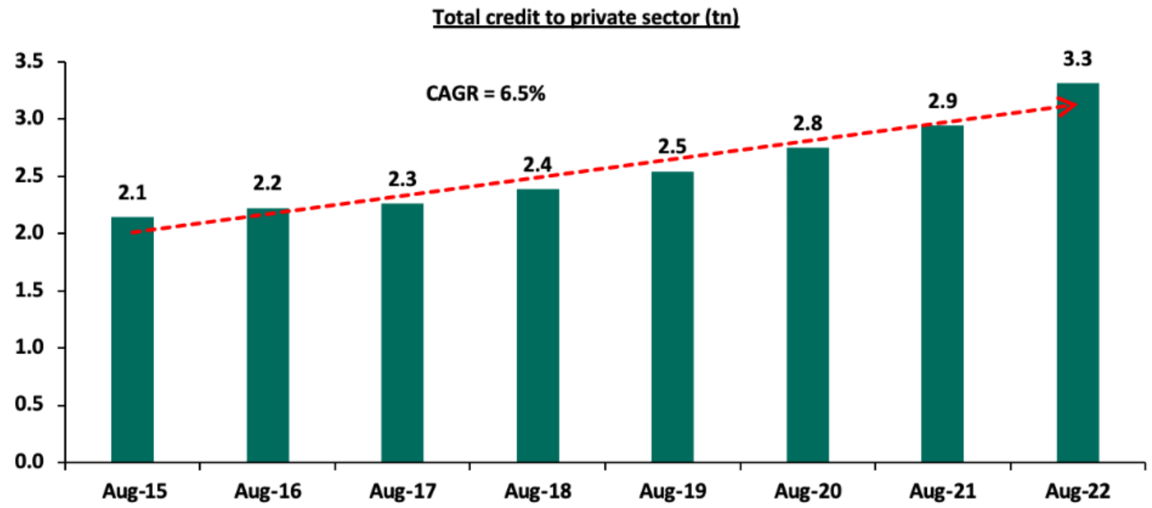
Inflation edged down to 7.3% in July, following June’s 7.9% figure represented the weakest inflation rate since May 2022. The result was driven by moderating price pressures for housing and utilities and transportation. Annual average inflation is at 8.7%. Going forward, inflation is expected to fall from current levels due to the lagged impact of monetary tightening and the expected stabilization of the shilling. However, recent increase in electricity prices and the introduction of new taxes will keep price pressures elevated.

The Central Bank Rate was elevated to 10.5% in the MPC meeting on June 2023 and remained at that level in their recent August meeting. This indicates tightening of the monetary policy to tame rising inflation. The average lending rate increase to 13.09% in March from 13.21% in May even though the deposit rate decreased to 7.6% to 7.75 in the same period. The Kenyan shilling has depreciated significantly to an estimated average of Sh144.04 in 2023 from Sh113.15 in January, 2022.

Private Sector Credit Growth

Over the years, banks have significantly increased lending to the private sector, with domestic credit to the private sector experiencing a 7-year Compound Annual Growth Rate (CAGR) of 6.5%. This growth has led to a rise in total credit from Kshs 2.1 trillion in August 2015 to Kshs 3.1 trillion in August 2022, aligned with an average economic growth rate of 4.8% over the same period. As of August 2022, credit extended to the private sector reached Kshs 3.3 trillion, with the trade sector receiving the largest allocation at Kshs 504.4 billion, accounting for 15.2% of total credit.

Year-to-date growth highlights the mining and quarrying, as well as agriculture sectors, growing by 45.6% and 16.8% respectively, reflecting figures of Kshs 21.4 billion and Kshs 110.1 billion compared to Kshs 10.9 billion and Kshs 92.4 billion in January 2022. This increased credit utilization indicates the resilience of these segments despite heightened credit risk due to a challenging business environment marked by elevated inflationary pressures. The accompanying graph illustrates the cumulative private credit trend during the reviewed period.



Source: Central Bank of Kenya

Finance Sector

Source: CBK and SIB

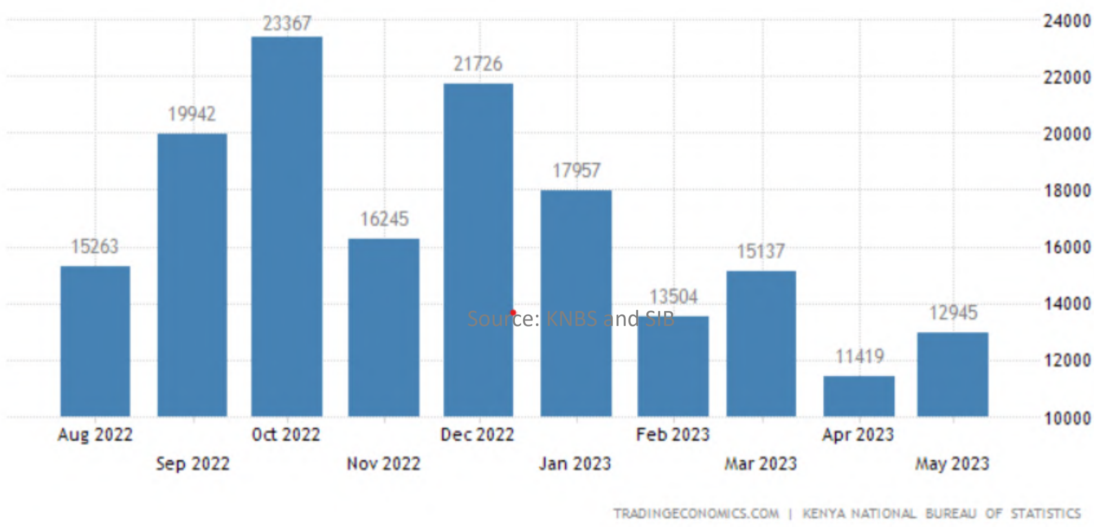
In the first quarter of 2023, the Financial and Insurance Activities sector experienced a growth rate of 5.8 percent, down from the 17.0 percent growth in the same quarter of 2022. This growth was influenced by the increase in the Central Bank Rate to 9.50 percent in March 2023, compared to 7.00 percent in March 2022. As a result, commercial banks raised the cost of credit, leading to an average interest rate on loans and advances of 13.09 percent in Q1 2023, up from 12.15 percent in March 2022. The average yield for 91 Days Treasury Bills improved to 9.76 percent in March 2023 from 7.25 percent in March 2022, and the average rate of return on deposits rose from 6.50 percent in March 2022 to 7.60 percent in March 2023.

4.2 The Transport Sector

The Transportation and Storage sector expanded by 6.2 per cent compared to 7.7 per cent growth in a similar quarter of 2022. The growth was attributed to improved performance in most of the subsectors, especially transportation of passenger and freight through rail. The number of passengers transported via Standard Gauge Railway (SGR) rose by 15.2 per cent from 518.8 thousand in the first quarter of 2022 to 597.5 thousand 5 in the first quarter of 2023. Mombasa port throughput increased by 1.8 per cent from 8,638.0 thousand metric tonnes in the first quarter of 2022 to 8,792.0 thousand metric tonnes in the period under review.

With the relaxation of travel restrictions across the country, investments within the matatu industry seem to have rebounded, as the public service vehicles were allowed to resume carrying at full capacity. This coupled with the growing Kenyan middle-class population, which was reported at 44.9 percent of the population by African Development Bank, and is expected to grow at an annual rate of 5%, supported by a growing working population and increased access to higher education; Have fanned lending to the transport sector as the young professions seek out auto loans, and has consequently increased the number of vehicles imported into the country.

The road transport sub sector remains the greatest contributor to the Kenyan transport sector accounting for about 93% of Kenya's total cargo and passenger traffic in 2022 as reported by the National Transport and Safety Authority (NTSA). And with increasing car ownership in the country and especially its capital city, following a growing middle-class population, the industry is expected to continue growing into the foreseeable future. The number of new car registrations in Kenya increased to 12,945Units in May from 11,419 Units in April of 2023



The number of imported vehicles increased by 9% from April to May, 2023. However, this trend is expected to change following price increases of imported cars as the Kenyan shilling weakens and cost of shipping rises.

The NTSA in October of 2021, published a list of 719 NTSA approved driving schools across the country, with more than 40 of them having branches within Nairobi County.

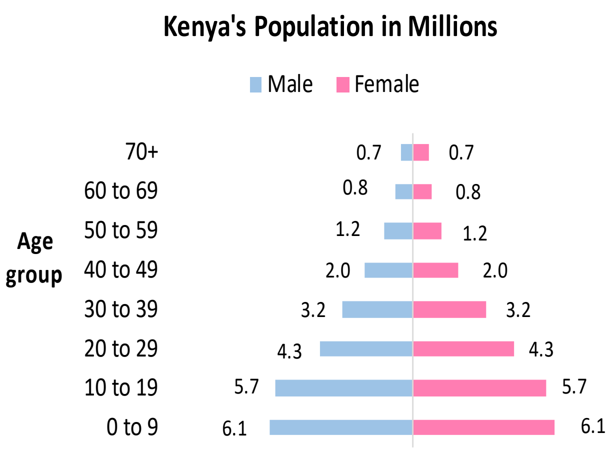
4.3 Demand in the Industry

A Young and Growing Population

About half of Kenya's population is below the age of 19 according to the 2019 census. Close to a million of these young people attain the minimum age requirement for attaining a driving license annually. This demographic presents a huge market for technical training in driving.

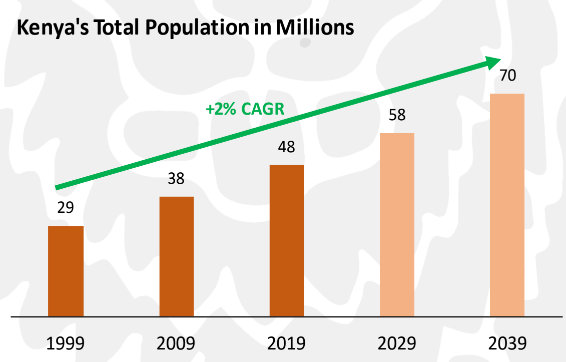
According to the NTSA, there were over 3 million licensed drivers in Kenya as of mid-2017. This implied that over 70% of Kenya's 23 million adult population lacked driving licensing.

Figure 5: A Youthful Population



Source: KNBS Census Data

Figure 5: A Rapidly Growing Population



Source: KNBS Census Data, Extrapolation

Kenya's rapidly growing population also presents an ever-growing demand for and transport services in general. Consequently, the transport sector is likely to continue attracting investment from both the public and private sector.

Kenya is a Regional Logistics Hub

Kenya has the fourth best logistics ecosystem In Africa and was ranked 63rd out of 167 countries globally according to the 2018 Logistics Performance Index by the World Bank Group. Kenya performed best in the area of tracking and tracing reinforcing the strong adoption of technology by local industry players. The East African region in general has very competitive logistics industries with 4 East African Countries featuring among the top 10 countries.

Table 1: Kenya's Positioning in the Global and Regional Logistics Industries

Economy	Mean African Rank	Mean Global Rank	Mean LPI score, 2012-18	% of highest performer	Customs		Infrastructure		International Shipments		Logistics Quality and Competence		Tracking and Tracing		Timeliness	
					Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
South Africa	1	29	3.51	83.8	29	3.29	28	3.39	26	3.53	33	3.42	30	3.56	31	3.85
Botswana	2	58	2.96	70.7	45	2.95	59	2.85	73	2.82	75	2.71	77	2.81	48	3.60
Egypt	3	60	2.95	70.5	65	2.67	55	2.91	59	2.94	55	2.95	64	2.91	67	3.30
Kenya	4	63	2.93	69.9	67	2.66	67	2.68	70	2.86	60	2.88	53	3.11	61	3.35
Rwanda	5	65	2.90	69.3	64	2.68	76	2.60	47	3.14	69	2.77	73	2.83	64	3.31
Cote d'Ivoire	6	66	2.89	69.0	68	2.66	69	2.67	58	2.96	56	2.95	62	2.95	85	3.11
Tanzania	7	67	2.88	68.8	69	2.66	63	2.72	66	2.89	65	2.80	69	2.85	62	3.34
Uganda	8	72	2.79	66.7	53	2.78	96	2.45	74	2.82	78	2.70	86	2.69	68	3.27
Namibia	9	80	2.73	65.1	72	2.60	62	2.74	93	2.68	86	2.64	107	2.55	81	3.14
Malawi	10	84	2.69	64.3	76	2.58	83	2.56	103	2.61	71	2.76	92	2.65	105	2.99

Source: 2018 Logistics Performance Index

Among the key drivers of the Kenyan economy has been our ability to provide efficient and effective logistics infrastructure to serve our landlocked neighbours: Uganda, Congo, Rwanda and Burundi. Over the past decade, we have witnessed massive investment in roads across the country. The standard gauge railway, the Lamu port, rehabilitation of the Kisumu port and railway lines; and the enhancement of major transit corridors signifies our intention to remain the logistics hub of the region.

4.4 PESTEL Analysis

The transport mobility industry is growing rapidly in Kenya as it is across the world, with disruptive innovations, changing regulations and customer needs hitting the market every so often, that dynamically transform and redesign the transport mobility landscape, making it even hard to forecast the future of the growing industry. However, by analysing a few factors at play within the industry one may hopefully gain some insight into the future of this space. The factors could be classified in several distinct categories which are; political, economic, social, technological, environmental and legal, and have been investigated as summarised below.

4.4.1 Political

Some of the political factors at play within the industry include formation of lobby groups such as the Kenya Driving School Association (KDSA) that has strongly defended and fought for the rights of driving schools in Kenya over the years, strengthening the negotiation ability of driving schools with the government and other state corporations and ensuring efficiency within the industry through self-regulation. Favourable customs relations across the East African Community have continuously facilitated easy transportation of people and goods across member countries, allowing the industry access to markets across the Kenyan border. The introduction of an importation ban on the importation of buses in July 2022 as the Kenyan government seeks to grow the local automobile manufacturing industry.

4.4.2 Economical

Following the easement of travel restrictions that were imposed to curb the spread of COVID-19, the transport and logistics industry has rebounded quite strongly by 16.7 percent in 2021. Lending to the sector grew by 11.8 percent in the FY 2020/21, recording the second highest growth within the private sector as more investments were channelled to the industry following increased activity. The number of imported vehicles into the country has continuously increased over the years, with second hand cars forming the bulk of the units imported. Given the strategic importance of Kenya’s coastal city, Mombasa and favourable regional trade relations, Kenya is positioned as the key commercial and economic hub for East Africa. This has provided it with the strategic opportunity to serve as the region’s logistics hub, facilitating transportation from its coast into the neighbouring landlocked nations. All this coupled with a growing disposable income, is likely to continue driving growth within the industry into the future.

4.4.3 Social

Car ownership in Kenya has gradually moved from being a preserve for the rich, to a social status symbol and a necessity to some even as a survey by automotive trading platform, Cars45 reported that 90 percent of Kenyan youths settling in life desire to own a car more than they do a house.

This social trend, paired with a growing middle class that is expected to grow by 5 percent annually is likely to drive up the demand for mobility services into the future. The country's metropolitan area had a population of over 9.3 million people and is expected to continue growing. This necessitates further investments into the areas' transportation sector in infrastructure, public and private transport services. The growing population about half of whom are under 19 years of age and just right at the legal driving age limit, presents a ripening market for players within the industry.

4.4.4 Technological

Good and affordable internet coverage across the country, increased smartphone ownership over the years and a very active technology innovation ecosystem in the country have driven digitization in the transport sector. Ride-hailing services have become very popular in urban areas, extending from taxis to motorcycles. Digitization has also spread into the motor vehicle valuation and insurance spaces with most auto valuers introducing online platforms that allow their clients to remotely assess and value their vehicles, apply for insurance covers, pay premiums and even make claims through their mobile phones. The digital bug is spreading fast, even onto driving tests with reports that NTSA is in talks with various stakeholders to introduce an automated driving test system, as it seeks to control the rogue examiners crisis that has bedevilled the authority. It is certain that digitization has swept across the transport sector and players within the sector ought to effectively adapt to the times so as to better serve the needs of their clients.

4.4.5 Environmental

Kenya is reported by China Dialogue, an independent organization promoting China's urgent environmental challenges, to have had an estimated 350 electric vehicles (EVs) in mid-2022. The government has backed the global shift to electricity powered mobility over traditional use of fossil fuels by launching the Kenya National Energy Efficiency and Conservation Strategy in 2020 to develop a national electric mobility policy. In March 2022, the first electric passenger bus was launched in Kenya by start-up, BasiGo. A few months later the first African designed and developed fully electric bus was launched in Kenya by a Swedish-Kenyan technology company. The government aims at growing EVs ownership in the country to 5 percent of registered vehicles by 2025. Recently other organizations have expressed interest into this budding eco-friendly space, with Kenya Power Lighting Company (KPLC) setting aside funds to purchase EVs in a bid to move away from fossil fuels powered vehicles in its fleet and a leading bank in the country has launched electric vehicle financing with a Kes 2 billion investment as it responds to its clients' interest in EVs.

4.4.6 Legal

The transport sector in Kenya is heavily regulated under the Traffic Act and supervised by the National Transport and Safety Authority (NTSA) that is responsible for the issuance of driving licenses, regulation of various players within the industry and even valuation and assessment of vehicles.

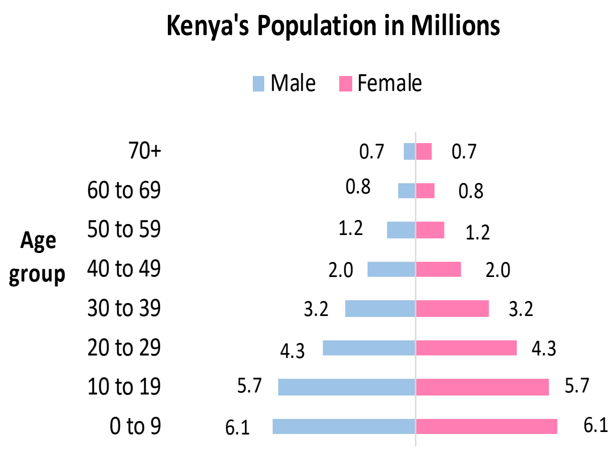
Recently, the courts suspended the enactment of the Traffic (Driving Schools, Driving Instructors and Driving Licenses) Rules, 2020; Requiring that the laws be sent back to the houses of parliament for review and all stakeholders be involved in the process. Some of the amendments proposed by the new rules had significant implications on driving schools, introducing new stringent licensing requirements that threatened the closure of very many driving schools across the country. It is also important to note that amendments on the Insurance Act, prohibiting insurance brokers and other insurance intermediaries from collecting premiums from policy holders on behalf of insurers, may have a reducing effect on the revenues of insurance brokers, a space in which AA Kenya has ventured into as AA Insurance Brokers (AAIB).

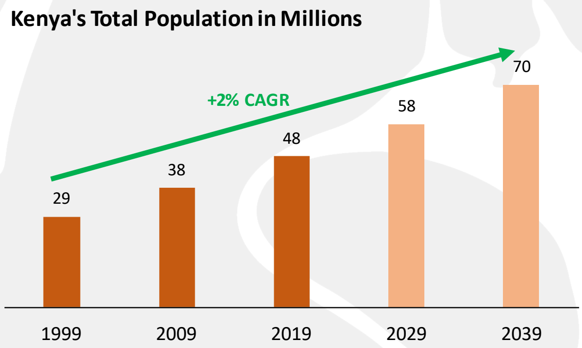
4.5 Factors driving demand for mobility and related services

4.5.1 A young and growing population

About half of Kenya's population is below the age of 19 according to the 2019 census. About a million of these young people attain the minimum age requirement for attaining a driving license annually. This demographic presents a huge market for technical training in driving and mobility related courses. According to the NTSA, there were over 3 million licensed drivers in Kenya as of mid-2017. This implied that over 70 percent of Kenya's 23 million adult population then were not licensed drivers. The NTSA in October of 2021, published a list of 719 NTSA approved driving schools across the country. With more than 40 of the driving schools having branches in Nairobi County, the market for mobility related training is huge.

Figure 13: Kenya's youth bulge





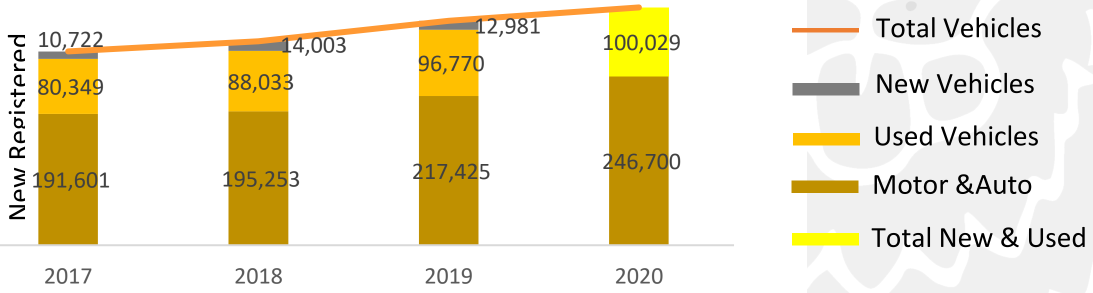
Source: KNBS

4.5.2 Increasing number of vehicles

The number of new motor vehicle registrations increased by 14.2 percent in 2021, with second hand imported cars forming the bulk of the registrations. The number of imported motor vehicles that landed at the Mombasa port was up 24.9 percent to 126,415 units in

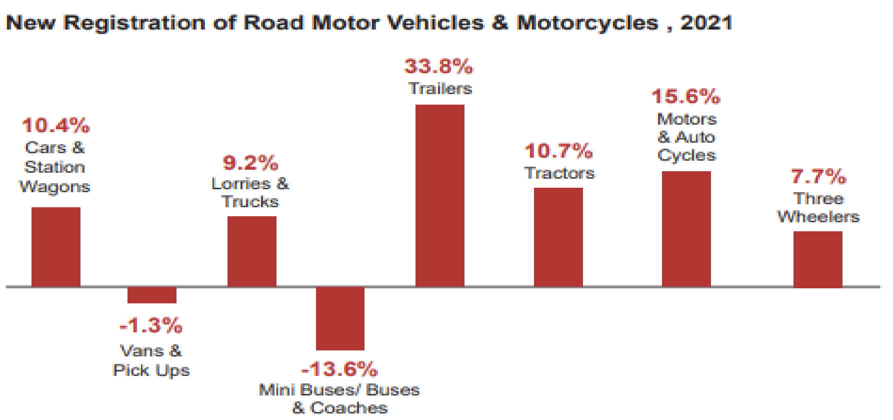
2021, and the sale of new cars increased by 30.2 percent. The number of individual driving licenses issued increased by 26.9 percent to 384,899 during the same year.

Figure 14: More vehicles on Kenya's roads



Source: KNBS

Figure 15: New registration of road motor vehicles & motorcycles in 2021



Source: KNBS

4.5.3 Kenya's status as a Regional Logistics Hub

Kenya has the fourth best logistics ecosystem In Africa and was ranked 63rd out of 167 countries globally according to the 2018 Logistics Performance Index by the World Bank Group. Kenya performed best in the area of tracking and tracing reinforcing the strong adoption of technology by local industry players. The East African region in general has very competitive logistics industries with 4 East African Countries featuring among the top 10 countries.

Among the key drivers of the Kenyan economy has been our ability to provide efficient and effective logistics infrastructure to serve our landlocked neighbours including Uganda, Congo, Rwanda and Burundi. Over the past decade, we have witnessed massive investment in roads across the country. The standard gauge railway, the Lamu port, rehabilitation of the Kisumu port and railway lines; and the enhancement of major transit corridors signifies our intention to remain the logistics hub of the region. Demand for fleet management and related services shall continue to strengthen as providers of haulage services strive to remain competitive.

Table 3: Kenya's Positioning in the Global and Regional Logistics Industries

Economy	Mean African Rank	Mean Global Rank	Mean LPI score, 2012-18	% of highest performer	Customs		Infrastructure		International Shipments		Logistics Quality and Competence		Tracking and Tracing		Timeliness	
					Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
South Africa	1	29	3.51	83.8	29	3.29	28	3.39	26	3.53	33	3.42	30	3.56	31	3.85
Botswana	2	58	2.96	70.7	45	2.95	59	2.85	73	2.82	75	2.71	77	2.81	48	3.60
Egypt	3	60	2.95	70.5	65	2.67	55	2.91	59	2.94	55	2.95	64	2.91	67	3.30
Kenya	4	63	2.93	69.9	67	2.66	67	2.68	70	2.86	60	2.88	53	3.11	61	3.35
Rwanda	5	65	2.90	69.3	64	2.68	76	2.60	47	3.14	69	2.77	73	2.83	64	3.31
Cote d'Ivoire	6	66	2.89	69.0	68	2.66	69	2.67	58	2.96	56	2.95	62	2.95	85	3.11
Tanzania	7	67	2.88	68.8	69	2.66	63	2.72	66	2.89	65	2.80	69	2.85	62	3.34
Uganda	8	72	2.79	66.7	53	2.78	96	2.45	74	2.82	78	2.70	86	2.69	68	3.27
Namibia	9	80	2.73	65.1	72	2.60	62	2.74	93	2.68	86	2.64	107	2.55	81	3.14
Malawi	10	84	2.69	64.3	76	2.58	83	2.56	103	2.61	71	2.76	92	2.65	105	2.99

Source: 2018 Logistics Performance Index

5. MARKET OVERVIEW

5.1 Driving Schools

With over 700 registered driving schools in Kenya, AA Kenya's top 3 competitors are arguably Pettans Driving School, Rocky Driving School and Heltz driving school. These institutions just like AA Kenya have a great national recognition and branch network across the country.

The increasing competition in the driving school market has over time resulted in service providers seeking to price driver training as low as possible in order to gain an edge over competitors. AA Kenya's edge in this market continues to be adherence to high motoring quality and safety standards rather than price. Being a pioneer in promoting safety standards and mobility training has also positioned AA Kenya's brand as strongest within the industry.

5.2 Touring and Licensing

Driving in foreign countries has been regulated since 1926 by the United Nations through 4 international conventions. Two of these conventions cover ninety-eight per cent of world countries: the 1949 Geneva Convention and the 1968 Vienna Convention. More than ninety per cent of all motor travel documentation is issued under these two United Nation conventions. Most of these countries delegate this task to the Automobile Clubs and motoring associations. It is on this foundation that the AIT and FIA Clubs are the world's largest organizations issuing IDPs (International Driving Permits) and CDPs (Carnets de Passages en Douane) . AA Kenya is the only member of these organizations in Kenya and thus the only issuer of cross border vehicle documentation including IDPs and CDPs.

5.3 Motor Vehicle Inspection and Valuation

According to the Insurance Regulatory Authority, there were 149 licensed motor assessors in Kenya as of April 2022. From 2016 to 2020, the number of licensed motor assessors has averaged at 128. Aside from vehicle sale and loan collateral purposes, most of the vehicle appraisal demand arises from the motor insurance industry. Motor assessors thus form a significant proportion of professional motor vehicle valuers in Kenya.

There are few barriers to entry into the vehicle valuation and appraisal market which makes the industry very competitive. As a pioneer provider of these services, AA Kenya has over the years developed a strong reputation for professionalism in the market.

5.4 Mobility Training

In the last decade, the government of Kenya government has raised its focus on Technical and Vocational Education and Training (TVET) in a quest to fill existing demand for technical skilled labour especially amongst the carders of craftsmen and technicians. This has resulted in an increase in the number of TVET institutions along with deliberate efforts to direct more government funding towards the institutions. Student enrolment in TVET institutions has also been on the rise with more students preferring TVETs as an ideal path to gaining in-demand skills and knowledge.

The AA Institute offers technical courses in the following disciplines: Motor Vehicle Mechanics, Motor Vehicle Electrical accredited by the National Industrial Training Authority (NITA), ICT training, Defensive Driver Training, Motor Transport Courses (Motor Transport Management, Effective Fleet Management, Vehicle Care and Maintenance), Soft Skills in Driving (Customer Service and Professional Etiquette) and Specialized Vehicle and Profession Courses (Emergency Vehicle Operations, Executive Driving Course, Smart School Bus Driver, School Bus Warder, Road Safety and Professional Driver Certification). There are not very many motor transport courses providers in Kenya, however AA Institute's major competition have diversified into other course offerings.

5.5 Fleet Management

The fleet management, fuel management and vehicle tracking market in Kenya is served by an increasing number of players owing to the low barriers to entry. Kenya is also uniquely positioned as a logistics hub especially serving Kenya's landlocked neighbours in addition to the growing domestic population.

Some of the notable players in the racking market include Trailing my car, Track & Trace, KK, Telematics Africa and Retriever Ltd. These players serve institutional clients such as corporates, governments, construction companies, transporters, schools and non-governmental institutions.

The competition has significantly adopted technological advancements in their operations and offerings to clients, making fleet and fuel management remotely accessible using any device with internet access.

5.6 Insurance Brokerage

The global insurance brokerage industry was valued at USD 265.03 billion in 2019 and forecasted to grow at a CAGR of 7.3% to 2027 by Allied Market Research's insurance brokerage industry report. Insurance penetration in Kenya and Africa is generally very low, with Africa only accounting for 1% of the world's insurance premium and Kenya accounting for 3.7% of the African market share. Kenya's insurance premiums in 2020 were USD 2.2 billion, with 37.7% of the industry's premiums being sourced from insurance brokers.

The Kenyan insurance brokerage industry is very competitive with 176 licensed insurance brokers, as of April 2022. Through AAIB, AA Kenya is able to offer customers a one stop-shop for most of their mobility needs. AA Kenya clients are thus able to access competitive insurance services in addition to fleet management, accident management, driver training and assessment and vehicle inspection and valuation.

5.7 AA's Competitive Position

The business boasts of its extensive experience across its various product lines, being a pioneer in the mobility industry, it has built a strong brand and grown its customers' confidence. The table below highlights AA's competitive position across its various product lines:

Business Line	Competition among Service Providers	Growth of Market	Pricing Power	Ease of Entry	AA's Strengths
Driving School	High	High – Population growth – Improving infrastructure – Social perception of driving	Low	High	– Pioneer and standard setter in mobility – Wide branch network in Kenya – Strong brand presence – High quality service offering
Inspection & Valuation	High	High - Increasing need for comprehensive insurance	Low	High	– ISO accreditation – Strong brand – Highly qualified Staff – Pioneer in the field – Digital and mobile innovation in the space
Technical Training	Medium	High – Population growth – Increasing need for learning	Low	High	– Certified by NITA – Capacity to offer practical learning environment
Membership and Road Rescue	Low	High – Increasing demand for and use of motor vehicles	High	High	– Strong brand
Licensing (IDPs and Carnets)	Low	High – Regional Integration – Multinational	Low – Standard International Pricing	Low	– Exclusive provider in Kenya
Fleet Management	High – Difficult to compete against logistics service providers especially those whose business is fleet management	High – As evidenced by the increasing number of service provider	Low	High	– Ability to offer related services including driver recruitment and training

6. FINANCIAL INFORMATION

6.1 Summary Historical Financial Information

6.1.1 Historical Income Statement

	12 months 2019 A Shs	12 months 2020 A Shs	12 months 2021 A Shs	12 months 2022 A Shs	6 months 2023 A Shs
Revenue	699,038,565	468,977,217	584,936,901	698,112,353	433,378,586
Direct expenses	(319,572,645)	(232,548,742)	(304,771,012)	(349,830,494)	(201,405,576)
Gross margin	**379,465,920**	**236,428,475**	**280,165,889**	**348,281,859**	**231,973,010**
Other operating income	22,682,117	6,658,272	18,948,220	9,183,674	1,289,959
Administrative expenses	(240,745,823)	(149,180,177)	(185,636,997)	(223,324,682)	(137,333,111)
Impairment losses on financial assets	(14,473,793)	(8,542,788)	(2,212,792)	6,088,503	(712,671)
Other operating expenses	(69,007,994)	(57,731,156)	(59,992,965)	(65,718,834)	(41,270,982)
Operating surplus	**77,920,427**	**27,632,626**	**51,271,355**	**74,510,520**	**53,946,205**
Finance costs	(27,061,803)	(34,066,766)	(32,094,835)	(23,584,561)	(8,374,440)
Surplus/(deficit) before tax	**50,858,624**	**(6,434,140)**	**19,176,520**	**50,925,959**	**45,571,765**
Tax (charge)/credit	8,280	(9,035)	-	(1,807,940)	(9,198,133)
Surplus/(deficit) for the year	**50,866,904**	**(6,443,175)**	**19,176,520**	**49,118,019**	**36,373,632**

6.1.2 Historical Statement of Financial Position

	12 months 2019 A Shs	12 months 2020 A Shs	12 months 2021 A Shs	12 months 2022 A Shs	6 months 2023 A Shs
Members funds					
Retained earnings	55,682,560	49,239,385	68,415,905	117,533,924	153,907,556
Non-current liabilities					
Borrowings	30,579,033	50,007,677	-	-	-
Lease liabilities	160,937,894	124,662,372	93,953,378	31,744,305	21,814,237
Retirement benefit Obligations	12,672,000	15,840,000	19,008,000	-	2,280,960
	259,871,487	**239,749,434**	**181,377,283**	**149,278,229**	**178,002,753**
REPRESENTED BY					
Non-current assets					
Deferred tax	9,035	-	-	533,953	5,594,698
Property and equipment	147,638,444	167,495,943	150,929,362	135,295,269	127,863,658
Intangible assets	9,987,287	7,309,094	5,979,825	3,924,755	2,726,361
Right-of-use assets	188,731,610	153,159,729	137,548,068	82,952,955	52,740,138
	346,366,376	**327,964,766**	**294,457,255**	**222,706,932**	**188,924,855**
Current assets					
Inventories	5,878,279	4,471,953	5,033,431	4,708,207	3,533,190
Trade and other receivables	108,803,200	86,760,809	79,586,757	104,835,907	126,389,870
Cash and cash equivalents	11,382,170	5,779,291	13,135,547	9,131,085	23,222,776
Tax recoverable	10,670,362	14,344,512	16,256,465	18,332,957	9,003,273
	136,734,011	**111,356,565**	**114,012,200**	**137,008,156**	**162,149,109**
Current liabilities					
Borrowings	29,128,061	36,695,649	51,625,560	45,139,076	33,691,207
Trade and other payables	116,128,374	76,846,131	73,210,223	66,256,590	67,919,512
Contract liabilities	39,315,793	39,905,389	38,758,045	32,437,191	31,868,854
Lease liabilities	38,656,672	46,124,728	63,498,344	66,604,002	39,591,638
	223,228,900	199,571,897	227,092,172	210,436,859	173,071,211
Net current (liabilities)	**(86,494,889)**	**(88,215,332)**	**(113,079,972)**	**(73,428,703)**	**(10,922,102)**
	259,871,487	**239,749,434**	**181,377,283**	**149,278,229**	**178,002,753**

6.1.3 Historical Cash Flow Statement

	12 months 2019 A	12 months 2020 A	12 months 2021 A	12 months 2022 A	6 months 2023 A
Cash flows from operating activities	Shs	Shs	Shs	Shs	Shs
Surplus/(deficit) before tax	50,858,624	(6,434,140)	19,176,520	50,925,959	45,571,765
Adjustments for:					
Depreciation on property and equipment	17,214,212	23,259,107	24,538,168	24,674,623	12,050,211
Depreciation on right of use	33,252,185	46,397,197	55,798,256	59,357,231	30,212,817
Amortisation of intangible assets	2,678,484	2,678,193	3,015,169	2,680,195	1,198,394
(Gain) on disposal of property and equipment	(5,375,008)	(271,870)	(4,881,237)	(441,387)	(16,212)
Interest expense	27,061,803	34,066,766	32,094,835	23,584,561	8,374,440
Changes in working capital:					
- inventories	(5,635,671)	1,406,326	(561,478)	325,224	1,175,017
- trade and other receivables	(30,211,084)	22,042,871	7,174,052	(25,249,150)	(21,553,963)
- trade and other payables	4,415,695	(39,282,243)	(3,635,908)	(6,953,631)	1,662,922
- contract liabilities	-	589,596	(1,147,344)	(6,320,854)	(568,337)
	-	-	-	-	-
Cash from operations	97,427,240	87,619,803	134,739,033	103,574,770	80,388,014
Tax paid	(1,566,688)	(3,674,630)	(1,911,955)	(4,418,387)	(4,508,598)
Net cash from operating activities	**95,860,552**	**83,945,173**	**132,827,078**	**99,156,383**	**75,879,416**
Cash (used in) investing activities					
Changes in restricted cash balances	-	1,000,000	-	-	-
Purchase of property and equipment	(29,144,386)	(43,154,710)	(8,693,205)	(9,120,321)	(4,629,274)
Purchase of intangible assets	(10,716,607)	-	(1,685,900)	(625,125)	-
Proceeds from disposal of property and equipment	6,613,509	309,974	5,602,856	521,179	50,000
Net cash (used in) investing activities	**(33,247,484)**	**(41,844,736)**	**(4,776,249)**	**(9,224,267)**	**(4,579,274)**
Cash flows (used in) financing activities					
Interest paid	(6,820,583)	(10,046,350)	(9,936,573)	(7,081,270)	(3,139,218)
Payments of principal portion of the lease liabilities	(45,410,001)	(63,653,198)	(75,680,234)	(80,368,824)	(42,177,703)
Proceeds from borrowings	-	39,308,100	-	-	-
(Repayment) of borrowings	(13,011,338)	(10,833,214)	(15,997,378)	(18,207,185)	(10,003,467)
Net cash (used in) financing activities	**(65,241,922)**	**(45,224,662)**	**(101,614,185)**	**(105,657,279)**	**(55,320,388)**
Increase/(decrease) in cash and cash equivalents	**(2,628,854)**	**(3,124,225)**	**26,436,644**	**(15,725,163)**	**15,979,754**
Movement in cash and cash equivalents					
At start of year	(10,548,018)	(13,176,872)	(16,301,097)	10,135,547	(5,589,616)
(Decrease)/increase	(2,628,854)	(3,124,225)	26,436,644	(15,725,163)	15,979,754
	-	-	-	-	-
At end of year	**(13,176,872)**	**(16,301,097)**	**10,135,547**	**(5,589,616)**	**10,390,138**

6.2 Summary Forecast Financial Information

6.2.1 Valuation Methodology

In these projections, we are considering a capital infusion of approximately Kshs.200 million. This injection of funds is expected to facilitate an accelerated expansion of the business, surpassing the previously anticipated revenue growth rate of 3%. Instead, the projected revenue growth rate has been adjusted to a growth rate of 35% in the year 2024, 40% in the year 2025, 45% in year 2026, and 50% in year 2027, this is backed by the expected. Alongside this fundamental change, there are several supplementary assumptions that exert an influence on the overall business valuation of the company.

Based on these projections as indicated below the valuation gives us a value of Kshs. 792 million for the company.

Figure 7: Summary of Assumptions

	2023	2024	2025	2026	2027
Assumptions					
Revenue growth		**35%**	**40%**	**45%**	**50%**
Other Income		**3%**	**3%**	**3%**	**3%**
Admin Expenses		**80%**	**80%**	**80%**	**80%**
Other Operating Expenses		**12%**	**12%**	**12%**	**12%**
Tax rate		**19%**	**20%**	**20%**	**20%**

Figure 8: Discounted Cashflow Valuation

DCF Model		2023	2024	2025	2026	2027
		Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
EBIT		84,055	103,364	135,512	185,739	266,212
Taxes		(16,811)	(20,673)	(27,102)	(37,148)	(53,242)
D&A		4,130	4,130	4,130	4,130	4,130
Changes in W.C						
Increase/ Decrease inventory		283	(1,414)	(30)	76	(52)
Increase/ Decrease trade & other receivables		(23,985)	(20,719)	(2,540)	3,034	(7,323)
Increase/Decrease trade payables		24,556	8,234	(2,434)	3,310	(81)
CAPEX		(9,745)	(236,809)	(15,103)	(9,611)	(21,313)
FCFF		**62,483**	**(163,887)**	**92,433**	**149,530**	**188,331**
Net Present Value						
Period		1	2	3	4	5
Discount rate	19.68%	52,206	(114,411)	53,915	72,875	76,689
Total NPV	**141,274**					

Terminal Value	
Market EBIT multiple	6
Terminal Value	1,597,275
NPV	**650,416**

Enterprise Value	
Total NPV	141,274
PV of Terminal Value	650,416
Enterprise value	**791,691**

The below proforma financial statements have been made after due and careful enquiry by the directors of AA Kenya PLC (3yrs).

6.2.2 Forecasted Income Statement

Summary of Forecasted Income Statement

Profit and Loss	2023 F	2024 F	2025 F
	Ksh '000	Ksh '000	Ksh '000
Revenue	726,900	981,315	1,373,841
Other Income	24,135	24,859	25,605
	751,035	**1,006,174**	**1,399,446**
Administrative Expenses	(579,983)	(785,052)	(1,099,073)
Other Operating Expenses	(86,997)	(117,758)	(164,861)
Operating Surplus	**84,055**	**103,364**	**135,512**
Finance Cost: Bank Loans	(9,293)	(8,125)	(9,393)
Bank Overdraft	(3,876)	(3,244)	(4,270)
Profit before Tax	**70,886**	**91,995**	**121,849**
Taxes	(14,612)	(17,479)	(24,370)
Profit After Tax	**56,274**	**74,516**	**97,479**

6.2.3 Forecasted Statement of Financial Position

Summary of Forecasted Statement of Financial Position

Balance Sheet	2023F	2024F	2025F
	Ksh '000	**Ksh '000**	**Ksh '000**
Retained surplus	167,611	192,763	217,869
Shareholder's funds	**167,611**	**192,763**	**217,869**
Non-Current Liabilities			
Deferred Tax	7,166	7,166	7,166
Equity and Non-Current Liabili	**174,777**	**199,929**	**225,035**
Non-Current Assets			
Deferred Tax	534	534	534
PPE	176,133	207,306	219,981
Intangible Assets	7,995	9,501	7,799
Non-Current Assets	**184,662**	**217,341**	**228,314**
Current Assets			
Inventory	4,425	5,839	5,869
Trade & other receivables	128,554	149,273	151,813
Cash	27,755	13,873	-4,835
Tax recoverable	18,333	18,333	18,333
Current Assets	**179,067**	**187,318**	**171,180**
Total Assets	**363,729**	**404,659**	**399,494**
Current Liabilities			
Bank Loan	50,067	54,215	38,905
Bank Overdraft	40,963	44,359	31,832
Trade and Other Payables	97,922	106,156	103,722
Current Liabilities	**188,952**	**204,730**	**174,459**
	363,729	**404,659**	**399,494**

*F means forecasted

7. MATERIAL RISKS AND MITIGATING FACTORS

The issuer has to the best of its ability taken steps to inform eligible investors on the past developments and future prospects in the affairs of the business. However, past performance is not a definitive guide to future performance. Any reference to the future performance of the business relies on accompanying assumptions qualifying the relevant forecasts.

The future performance of the business is subject to various uncertainties including those listed in this chapter. The risks described below do not exhaust the potential risks that the business faces. Therefore, eligible investors should carefully consider the risks disclosed herein, all the information contained in this and other offer documents, information available to the public and the personal circumstances relevant to each investor.

7.1 Risks Relating to the Securities on Offer

i. Liquidity Risk

The global investing community classifies Kenya as a “frontier” capital market and developing economy in general. The nature of such markets is that investors may face challenges in disposing of their investments quickly at their market value.

To address this risk, the issuer has offered its shares for trading on the unquoted securities platform (“USP”) offered by the Nairobi Securities Exchange (“NSE”) LLP. The USP offers prospective holders of the shares on offer a potentially active market for their shares in the event they decide to sell their respective shares.

ii. Price Risk

The demand and supply of the shares shall determine the price of the shares post-offer shall be determined by their demand and supply on the USP or any other over the counter (“OTC”) platform. The future performance of the business and changes in its business environment shall also have an impact on the price of the market value of the shares. The issuer has no influence over the pricing of the shares beyond the offer.

7.2 Risks Relating to the Issuer

i. Materialisation of Forecasts

The management of the issuer has expressed its commitment towards implementing the strategic plan on which the projected performance of the business is based. However, there are no guarantees that the implementation of the plan would yield the expected results. The issuer strives to acquire, retain and motivate staff with the relevant expertise that have enabled it navigate challenges in its business environment.

ii. Competition

The issuer is involved in business lines where it faces competition from both existing and future players in the relevant industries. The competition may affect the achievement of revenue and profitability objectives of the business.

The Issuer is a pioneer and market leader in the sector in which it operates. Over the years, the business has and continues to invest in building a strong brand focused on continuous innovation to improve customer experience and satisfaction.

7.3 Risks Relating to Industry

i. Covid-19

The Covid 19 pandemic had dire consequences such as pressure on health infrastructure, loss of lives, disruption of economic activity, disruption of supply chains supply chains, rise in unemployment and reduction in aggregate spending power among many other effects.

Governments are implementing vaccination programmes, stepping up investment in health infrastructure and rolling economic stimulus programmes. These, among other measures, are crucial steps to economic recovery post-covid.

ii. Regulatory Risk

The operations of the business are subject to the regulatory framework governing the industries in which it operates. There may emerge change in the regulatory framework that have a negative impact on operations and performance of the issuer. The issuer has generally been compliant with regulations governing its businesses and actively monitors and pursues compliance.

iii. Global Supply Chains

The present and future business of the issuer is both directly and indirectly dependent on the smooth global supply of goods. In particular, disruption of supplies in automotive parts and equipment may impact negatively on service delivery by the issuer. The issuer has a robust inventory management and procurement policies and systems to mitigate this risk.

iv. Taxation risk

The issuer is subject to various taxes including but not limited value added tax and income tax. Increases in the aggregate tax rate of the business shall have an impact on the profitability of the business. Taxation is a cost of doing business to which the issuer has little influence over.

7.4 Risks Relating to the Country and Region

i. Political and Geopolitical Risk

The issuer primarily operates in Kenya, a young democracy. Economic activity in the country may slow down or face disruption by the actual or possible occurrence of civil unrest and political upheaval. The issuer also plans to expand into other countries within the region. Their operations in those countries may face similar changes. In addition, trade and diplomatic disputes between those countries and Kenya may also have an impact on those operations. The region has experience relative calm over recent years. In addition, ongoing regional integration initiatives point towards a future of stability.

8. LEGAL AND RELATED MATTERS

8.1 Directors

Name	Age	Nationality	Address
Mr. Jinaro Kipkemoi Kibet	58	Kenyan	Nairobi, Kenya
Mr. Francis Theuri	55	Kenyan	Nairobi, Kenya
Mr. Samuel Ndirangu Gachoka	55	Kenyan	Nairobi, Kenya
Eng. Erastus Mwongera	74	Kenyan	Nairobi, Kenya
Mr. Aggrey Jonathan Bett	67	Kenyan	Nairobi, Kenya
Dr. Manoj Ramnikal Shah	63	Kenyan	Nairobi, Kenya
Mr. Charles Githitu Waithima	55	Kenyan	Nairobi, Kenya
Mr. Gerald Kariuki Gakima	55	Kenyan	Nairobi, Kenya
Mr. Stephen Maina Waweru	65	Kenyan	Nairobi, Kenya
Rev Harun Njoroge Ngere	58	Kenyan	Nairobi, Kenya
Mr. Samuel Macharia Waweru	64	Kenyan	Nairobi, Kenya
Mrs. Beatrice Atieno Rariewa	55	Kenyan	Nairobi, Kenya
Mr. Julius Njihia Ngugi	61	Kenyan	Nairobi, Kenya
Mr. Samuel Ndung'u Kamau	53	Kenyan	Nairobi, Kenya

8.2 Related Entities

No	Entity (Registration Number)	Approximate Ownership by AA KENYA PLC
1	AA KENYA Insurance Brokers Limited 50927	100 percent

8.3 Related Party Transactions

In the year 2022, the offeror engaged in related party transactions, resulting in the accumulation of outstanding receivables owed by a related party. It is noteworthy that these receivables, although present, are not to be deemed material. Furthermore, this related party is a subsidiary of the association.

8.4 Principal Objects of the Company

The objects for which the company is established are: -

1. To undertake and carry on the office or offices and duties of trustee, custodian trustee, attorney, agent or nominee of the unincorporated body "the association".
2. As the association may direct and at the expense of the association to hold, deal with, manage, direct the management of, buy, sell, exchange, mortgage, charge, lease, dispose of or grant any right or interest in, over or upon any property and to undertake and carry on any business, undertaking or transaction.
3. As the association may direct and at their expense, to erect and equip house.
4. As the association may direct and at their expense to apply for, acquire any charters, ordinances, acts of parliament, privileges, monopolies, licences, concessions, patents or other rights, powers or orders from the governments and to carry on and work any powers, rights or privileges so obtained.
5. As the association may direct to enter into any guarantee, contract of indemnity or suretyship and in particular to guarantee the payment of any principal moneys, premiums, interest and other moneys secured by or payable under any obligations or securities.
6. As the association may direct to lend money to, or grant or provide credit or financial accommodation to any person or company in any case in which such grant or provision is considered likely, directly or indirectly, to further any of the objectives of the company.
7. To invest, as the association may require.
8. As the association may require, to borrow and raise money and secure or discharge any debt or obligation.
9. As the association may direct to sell, exchange, mortgage, share of profit, royalty or otherwise, grant licenses, easements, options, servitudes and other rights over and dispose of any undertaking, property, assets, rights and effects for such consideration as may be thought fit.
10. As the association may direct to amalgamate or become associated with or enter into any agreement for reciprocal benefits.
11. As the association may direct to establish or promote or assist, concur or participate in establishing or promotion of which shall be considered desirable in the interests of the company.
12. As the association may direct to grant or give pensions, gratuities or financial or other assistance to employees and ex-employees of the company or the association.
13. To procure the registration or incorporation of the company in or under the laws of any place outside Kenya.
14. To do any such other lawful things as may be considered likely to promote or further the interests of the association or as may be incidental or conducive to the attainment of the above objects or any of them.

8.5 Articles of Association Clauses empowering the company to issue shares

5.1 Without affecting any special rights previously conferred on the holders of any existing shares or class of shares (which special rights shall not be modified or abrogated except with such consent or sanction as is hereinafter provided), the Company may issue shares (whether forming part of the original capital or not) that have:

5.1.1. preferred, deferred or other special rights; or

5.1.2. any restrictions, whether in regard to dividend, voting, return of capital or otherwise, that the Company may from time to time by ordinary resolution determine.

5.2 Subject to Part XX of the articles, the company may issue shares on the terms that they are to be redeemed, or liable to be redeemed, at the option of the Company or the holders of the shares.

5.3 The directors may determine the terms, conditions and manner of redemption of the shares.

5.4 If at any time the share capital is divided into different classes of shares the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may from time to time (whether or not the Company is being wound up) be altered or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of that class. To every such separate General Meeting, all the provisions of these Articles relating to General Meetings of the Company shall, mutatis mutandis, apply but so that the necessary quorum shall be two (2) persons at least holding or representing by proxy not less than three-fourths of the issued shares of the class and so that any holder of shares of the class present in person or by proxy may demand a poll.

5.5 The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided by the conditions of issue of such shares, be deemed to be altered by the creation or issue of further shares ranking pari passu therewith.

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

5.7 Subject to the Applicable Laws, the Company shall issue each Member, free of charge, with one certificate in respect of the share that the Member holds, within two (2) months after allotment or lodgement of a proper document of transfer or within any other period that the conditions of issue provide. If more than one person holds a share, only one certificate may be issued in respect of it. A certificate may not be issued in respect of shares of more than one class.

5.8 A certificate is invalid unless it: specifies (a) in respect of how many shares and of what class the certificate is issued; (b) the amount paid up on them; and (c) any distinguishing numbers assigned to them; and

5.9 A Member may request the company to replace the Member's separate certificates with a consolidated certificate or to replace the Member's consolidated certificate with two (2) or more separate certificates representing the proportion of the shares that the Member specifies. A consolidated certificate may be issued only if any certificates that it is to replace have first been returned to the company for cancellation. Separate certificates may be issued only if the consolidated certificate that they are to replace has first been returned to the company for cancellation.

5.10 If a share certificate is defaced, lost or destroyed, it may be replaced on payment of such fee (if any) as the Board may from time to time determine and, in the case of loss or destruction, on such terms, if any, as to evidence and indemnity and payment of the out-of-pocket expenses of the Company of investigating such evidence as the Board may think fit and, in case of defacement, on delivery of the old certificate to the Company.

5.11. The Directors shall not exercise any power conferred on them to allot shares in the Company without the prior authorisation of the Company by resolution as required under section 329 of the Act.

5.12. The Company may by ordinary resolution alter its share capital in any one or more of the ways set out in Division I of Part XV of the Act.

5.13 The Company may by special resolution reduce its share capital in accordance with Division 2 of Part XV of the Act.

5.14. The Company may acquire its own shares in accordance with Part XVI of the Act.

5.15. If the Board declines to register a transfer, it shall, within two (2) months after the date on which the transfer was lodged with the Company, send to the transferor and the transferee notice of the refusal.

5.16. The registration of transfers may be suspended and the Register closed at such time and for such periods as the Board may from time to time determine provided that such suspension and closure shall not be for more than thirty {30) days in any year.

5.17. There shall be paid to the Company in respect of the registration of any probate, letters of administration, certificate of marriage or death, power of attorney, notice of attachment, deed poll or other document relating to or affecting the title to any share, such fee (if any) as the Board may from time to time require or prescribe.

5.18. Where any securities of the Company are forfeited pursuant to these Articles after being immobilised or dematerialised, the Company shall be entitled to transfer such securities to a securities account designated by the Board for this purpose.

5.19. The Board may from time to time, make calls upon the Members in respect of any moneys unpaid on their shares and each Member shall (subject to the Company giving to him at least fourteen {14) days' notice specifying the time or times and place of payment) pay to the Company at the time or times and places so specified the amount called on his shares. A call may be revoked or postponed as the Board may determine.

5.20. A call shall be deemed to have been made at the time when the resolution of the Board authorizing the call was passed and may be required to be paid by instalments.

5.21. The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

5.22. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate as the Board may from time to time determine but the Board may waive payment of such interest wholly or in part.

5.23. Any sum which, by the terms of issue of a share, becomes payable on allotment or on any fixed date, whether on account of the nominal amount of the share or by way of premium, shall for all the purposes of these Articles be deemed to be a call duly made and payable on the date on which, by the terms of issue, the same becomes payable and, in case of non-payment, all the relevant provisions of these Articles as to payment of interest and expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.

5.24. The Board may differentiate between the holders as to the number of calls to be paid and the times of payment.

5.25. The Board may, if it thinks fit, receive from any Member willing to advance the same all or any part of the moneys uncalled and unpaid upon any shares held by him and upon all or any of the moneys so advanced may (until the same would, but for such advance, become presently payable) pay interest at such rate as may be agreed upon between the Board and the Member paying such sum in advance.

5.26. On the trial or hearing of any action for the recovery of any money due for any call, it shall be sufficient to prove that the name of the Member sued is entered in the Register as the holder, or one of the holders, of the shares in respect of which such debt accrued, that the resolution making the call is duly recorded in the minute book of the Company or of the proceedings of the Board, and that notice of such call was duly given to the Member sued in pursuance of these Articles; and it shall not be necessary to prove the appointment of the Board which made such call, nor any other matters whatsoever, but the proof of the matters aforesaid shall be conclusive evidence of the debt.

5.27. If any Member fails to pay any call or instalment on or before the date appointed for the payment of the same, the Board may at any time thereafter during such time as the call or instalment remains unpaid, serve a notice on each Member requiring him to pay the same, together with any interest that may have accrued and all expenses that may have been accrued by the Company by reason of such non-payment.

5.28. The notice shall name a day (not being less than Fourteen (14) days from the date of the notice) and a place or places on and at which such call or instalment and such interest and expenses as aforesaid are to be paid. The notice shall also state that, in the event of non-payment on or before the day and at the place appointed, the shares in respect of which the call was made or instalment is payable will be liable to be forfeited. The Board may accept the surrender of any share liable to be forfeited hereunder and, in such case, references herein to forfeiture shall include surrender.

5.29. If the requirements of any such notice are not complied with, any shares in respect of which such notice has been given may, at any time thereafter, before payment of all calls or instalments, interest and expenses due in respect thereof, be forfeited by a resolution of the Board to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited shares and not actually paid before the forfeiture.

5.30. Where any share has been forfeited, notice of the resolution shall be given to the Member in whose name it stood prior to the forfeiture or to the person entitled to the share by reason of the death or bankruptcy of the Member (as the case may be) and an entry of the forfeiture, with the date thereof shall forthwith be made in the Register of Members, and the Member (or his beneficiary, as the case may be) shall be bound to deliver forthwith to the Company any certificate or certificates held by him for the share or shares so forfeited, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice as aforesaid.

5.31. A forfeited share shall be deemed to be the property of the Company and may be sold, reallotted or otherwise disposed of upon such terms and in such manner as the Board may think fit and, at any time before a sale, re-allotment or other disposition, the forfeiture may be cancelled on such terms as the Board may think fit. Where for the purposes of its disposal a forfeited share is to be transferred to any person the Board may authorize some person to execute an instrument of transfer of the share to that person.

5.32. Any Member whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares but shall, notwithstanding, be liable to pay, and shall forthwith pay to the Company all calls, instalments, interest and expenses owing upon or in respect of such shares at the time of such forfeiture, together with interest thereon, from the time of such forfeiture until payment, at such rate as the Board may from time to time determine, and the Board may enforce the payment of such moneys or any part thereof as they think fit, but shall not be under obligation so to do.

5.33. The provisions of these Articles as to forfeiture shall apply in the case of non- payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

5.34. A statutory declaration in writing that the declarant is a Director or the Secretary of the Company and that a share has been duly forfeited on the date stated in the declaration shall be conclusive evidence of the facts stated therein as against all persons claiming to be entitled to the share. Such declaration and the receipt of the Company for the consideration (if any) given for the share on the sale, re-allotment or disposal thereof together with the certificate for the share delivered to a transferee or allottee thereof shall (subject to the execution of a transfer if the same be so required) constitute a good title to the share and the person to whom the share is sold, re-allotted or otherwise disposed of shall be registered as the holder of the share and shall not be bound to the application of the consideration (if any) nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture, sale, re-allotment or other disposition of the share.

5.35. The Company shall have a first and paramount lien upon every share (not being a fully paid share) registered in the name of each Member (whether solely or jointly with others) for all moneys (whether presently payable or not and whether the period for the payment, fulfilment or discharge thereof shall have actually arrived or not) due from such Member or his estate, either alone or jointly with any other person, to the Company but the Board may at any time declare any share to be wholly or in part exempt from the provisions of this Article. The Company's lien, if any, on a share shall extend to all dividends payable thereon. Unless otherwise agreed, the registration of a transfer of shares shall operate as a waiver of the Company's lien (if any) upon such shares.

5.36. For the purpose of enforcing such lien, the Company may sell in such manner as the Board may determine, any share on which the Company has a lien but no sale shall be made unless some sum in respect of which the lien exists is presently payable or before the expiration of fourteen (14) days after a notice in writing, stating and demanding payment of the sum presently payable and giving notice of the intention to sell in default, shall have been given to the registered holder for the time being of such share, or to the person entitled to the share by reason of his death or bankruptcy.

5.37. To give effect to any such sale, the Board may authorize any person to transfer the share sold to the purchaser thereof. The purchaser shall be registered as the holder of such share or shares and he shall not be bound to see to the application of the purchase money nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings in reference to the sale and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

5.38. The net proceeds of any such sale, after payment of the cost of such sale, shall be applied in or towards payment or satisfaction of the debt or liability in respect whereof the lien exists so far as the same is presently payable and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the share prior to the sale) be paid to the person entitled to the share at the time of the sale, but subject to the surrender to the Company for cancellation of any certificate or certificates for the shares sold.

5.39. Subject to the Applicable Laws, all transfer of shares shall be in writing in any usual or common form as the Board may from time to time or at any time approve.

5.40. The instrument of transfer of a share shall be executed by or on behalf of the transferor and transferee, provided that the Board may dispense with execution by the transferee in any case which it thinks fit to do so. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect thereof. All instruments of transfer, when registered, shall be retained by the Company.

5.41. The Board may, in its absolute discretion, decline to register any instrument of transfer of shares (not being fully paid shares)

5.42. The Board may also decline to register any instrument of transfer if:

5.42.1. the transfer relates to shares on which the Company has a lien; or

5.42.2. the registration fee or other related costs (of such amount as the Board may from time to time prescribe) is not paid to the Company in respect thereof; or

5.42.3. it is not accompanied by the certificate or certificates for the shares to which it relates, and such other evidence as the Board may reasonably require to show the rights of the transferor to make the transfer; or

5.42.4. it is of shares of more than one (1) class of shares; or

5.42.5. the transferee named therein is:

(a) an infant person; or

(b) a person incapable by reason of mental disorder of managing and administering his property and affairs; or

(c) a partnership in its partnership name; or

(d) in the case of a transfer to joint holders, they exceed four in number; or

5.42.6. the registration of shares would infringe any law of Kenya.

5.43. If the Board refuses to register a transfer it shall, within sixty (60) days after the date on which the instrument of transfer was lodged with the Company, send to the transferee notice of the refusal together with a statement specifying the reasons for refusal. Any instrument of transfer which the Board refuses to register shall (except in the case of fraud) be returned to the person lodging it when notice of refusal is given.

5.44. The Board may suspend the registration of a transfer of a share for any period or

periods not exceeding thirty (30) days in each financial year of the Company.

5.45. The Company shall be entitled to charge a fee of such amount, not exceeding such sum as the Board may from time to time prescribe having regard to prevailing market conditions and regulatory requirements, on the registration of every probate, letters of administration, certificate of death or marriage, power of attorney or other instrument relating to or affecting the title to any share.

5.46. In case of the death of a Member, the survivor or survivors, where the deceased was a joint holder, and the legal personal representatives of the deceased, where he was a sole holder, shall be the only persons recognized by the Company as having any title to his share, but nothing herein contained shall release the estate of a deceased holder from any liability in respect of any share which had been solely or jointly held by him.

5.47. Any person becoming entitled to a share in consequence of the death or bankruptcy of a Member may, upon such evidence as to his title being produced, as may from time to time be properly required by the Board, and subject as hereinafter provided, elect either to be registered himself as the holder of the share or to have some person nominated by him registered as the transferee thereof but the Board shall, in either case, have the same right to decline or suspend registration as it would have had in the case of a transfer of the share by that Member before his death or bankruptcy as the case may be.

5.48. If the person so becoming entitled shall elect to be registered himself, he shall deliver or send to the Company a notice in writing signed by him stating that he so elects. If he shall elect to have another person registered, he shall testify his election by execution of a transfer of the share to that person. All the provisions of these Articles relating to the right to transfer and the registration of transfers of shares shall apply to any such notice or transfer as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer executed by that Member.

5.49. A person becoming entitled to a share in consequence of the death or bankruptcy of a Member shall be entitled to receive, and may give a discharge for all dividends and other moneys payable in respect of the share, but he shall not be entitled to receive notices of or to attend or vote at General Meetings of the Company or to have any of the rights or privileges of a Member until he shall have become a Member in respect of the share. The Board may at any time give notice requiring any such person to elect either to be registered himself or to transfer the share and if the notice is not complied with within sixty (60) days the Board may thereafter withhold payment of all dividends or other moneys payable in respect of the share and such person shall not thereafter have any right to attend or vote at any General Meeting in respect of the share until the requirements of the notice have been complied with.

5.50. The Company shall, as required by the Unclaimed Financial Assets Act, deliver or pay to the Unclaimed Financial Assets Authority any unclaimed assets including but not limited to shares and dividends in the Company presumed to be abandoned or unclaimed in law and any dividends remaining unclaimed beyond prescribed statutory periods and the Board may perform such acts as may be necessary to effect such delivery or payment. Upon such delivery or payment, the unclaimed assets shall cease to remain owing by the Company and the Company shall no longer be responsible to the Member or his or her estate, for the relevant unclaimed assets.

8.6 Debt Profile of the Issuer

AAK Plc's debt profile as at 31 August 2023 includes two outstanding loans in its loan book:

i. Coop Asset Finance Loan: AAK Plc has a Coop Asset Finance Loan amounting to Kshs. 18,161,112 (Eighteen Million, One Hundred Sixty-One Thousand, One Hundred Twelve Kenyan Shillings).
ii. Equity Term Loan: Additionally, AAK Plc holds an Equity Term Loan with a balance of Kshs. 1,403,483 (One Million, Four Hundred Three Thousand, Four Hundred Eighty-Three Kenyan Shillings).

This information provides an overview of AAK Plc's current debt obligations.

8.7 Dividend Policy of the Issuer

AAK has a Dividend Policy to pay dividends when permitted by law and subject to consideration of its results of operations, financial position, investment and liquidity requirements, legal reserves and minimum capital requirements.

The Dividend Policy that is the recommended amount allocated for dividend pay-out shall be determined by the Board of Directors, and approved by majority vote of the Shareholders at an Annual General Meeting of the Company based on AAK's financial performance at the end of the reporting fiscal year.

8.8 Availability and reliability of financial records

AA Kenya PLC was incorporated on 22 November 2022. AA Kenya PLC will be acquiring the businesses historically performed by the Automobile Association of Kenya and its subsidiaries. At the time of demutualization Automobile Association of Kenya had audited financial statements complying with International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) but going forward, audited financial statements shall comply with International Financial Reporting Standards for Public Companies. The reporting accountants prepared the combined proforma financial statements to reflect the historical financial information of AA Kenya PLC on the assumption that it existed with effect from 1 January 2019 in its intended form of having acquired the businesses of the Automobile Association of Kenya and its subsidiaries as of that date.

8.9 Capital Changes in the last five (5) years

The following are the material changes in share capital of the Issuer prior to the RPO:

1. ***Share split***
   Each of the existing issued ordinary shares with a par value of Kshs. 1000 in the share capital of the Company was subdivided into 125 shares of Kshs. 8 each (share split at the rate of 1:125)
2. ***Issue of New Shares during RPO***
   The Company targets to sell out part of existing shares and issuing new shares effectively diluting Automobile Association Holdings Company Ltd shareholding to 62.7%. AA Kenya Plc will issue 30,670,825 new shares part of which will be for offer during the RPO.

8.10 Legal or Arbitration Proceedings

The Company is not a party to, and has not been threatened with, any material litigation.

8.11 Directors' Interests and Conflict of Interest

The Directors are obliged to fully disclose to the Board real or potential conflict of interest, which comes to his/her attention, whether directly or indirectly. The statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company has been observed by the Board. All business transactions with all parties, directors or their related parties are carried out at an arms' length. An acknowledgement that should it come to the attention of a director that a matter concerning the Company may result in a conflict of interest, obligates the Director to declare the same and exclude himself/herself from any discussion or decision over the matter in question. At every meeting of the Board, there will be an agenda item which requires members to make a declaration of any interest they may have in the business under discussion.

Currently, no Director of the Company has declared a conflict of interest in relation to the proposed RPO of AA Kenya Plc.

No director(s) has a direct or an indirect interest in the Company's total shareholding in excess of 3% of the Company's total shareholding.

None of the Directors of AA Kenya Plc has beneficial interests in the AA Kenya Plc or in Automobile Association Holdings Company Plc who are the majority shareholder of AA Kenya Plc.

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

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

8.12 Major Shareholders

As of the date of this Short Form Prospectus, the Issuer's primary shareholder is Automobile Association Holdings Plc, which holds a 100% ownership stake in AAK Plc and controls all voting rights. Post offer and if fully subscribed, Automobile Association Holdings Plc will remain with a majority shareholding of 62.70% and will be key to maintaining the strategic direction of the company as well as maintaining its legacy. Automobile Association Holdings Plc is wholly owned by the former Automobile Association of Kenya members who will get an opportunity to buy shares through the offer.

9. TERMS AND CONDITIONS OF THE OFFER

9.1 Eligibility, Minimum Subscription

There are two pools:

a) Members Pool: Pool of 7,762,881 Offer Shares at the Offer Price of Kshs. 25.80 is for any registered member with capacity to assess and evaluate this investment, risks and risk mitigants. The minimum application size is for 1,000 Offer Shares for Kshs. 25,800.00. Applications are to be made in multiples of 100 Offer Shares.

b) Employees Pool: Pool of 3,681,999 Offer Shares at the Offer Price of Kshs. 8.00 is for any prospective investor with capacity to assess and evaluate this investment, risks and risk mitigants. The minimum application size is for 1,000 Offer Shares for Kshs. 8,000.00. Applications are to be made in multiples of 100 Offer Shares. Any untaken shares in this pool will revert to the Automobile Association Holdings Company Plc.

   Lock-Up Period: Please note that there is a lock-up period of 1 year for shares allocated from the Employees Pool. During this one-year lock-up period, investors are prohibited from selling or transferring their allocated shares. Any untaken shares in this pool at the end of the lock-up period will revert to the Automobile Association Holdings Company PLC. This lock-up period is designed to promote stability and commitment among investors and aligns with the long-term vision of the company.

9.2 Status of Offer Shares

The Existing Shares and Offer Shares will be freely transferable and will not be subject to any restrictions on marketability or any pre-emptive rights. The entitlement to dividends and other corporate actions will commence for the financial year ending 31 December 2023. Every shareholder will be entitled to one vote per share at shareholder meetings.

9.3 Offer dates

The Offer opens on 11 October 2023 and closes on 27 November 2023. The dates may be changed at the discretion of the Directors subject to the approval of the CMA (where applicable) and published in the public media. For full details on the timetable, refer to *Section 1.1 – The Offer Timetable* above.

9.4 Application

To accept the RPO Offer, you must complete the Application Form in accordance with the instructions.

Portal

Shareholders will receive an email and SMS to their registered email address and phone number with a link to enable access to the Portal.

a.1: in the email the shareholder will receive a unique username and password

a.2: The shareholder will login and will see a dashboard with the following;

1. Application form
2. Accepted Applications
3. Rejected application

9.4.1 Copies of this Short form Prospectus may be obtained from the AA Kenya PLC Application Centres referred to in Section 10 below or through the AA Kenya website.

9.4.2 Persons wishing to apply for Offer Shares must complete the Application in accordance with the instructions contained in the link shared and this Prospectus.

9.4.3 A completed Application Form must be electronically returned through the links shared via SMS or email.

9.4.4 Neither AA Kenya PLC, nor any of the advisors nor any of the Authorised Agents shall be under any liability whatsoever should an Application Form not be received by the Closure Date.

9.4.5 Joint applications may only be made by individuals (not corporations) and must not be used to defeat the allocation policy. For purposes of the minimum initial allocation under the allocation policy, AA Kenya PLC reserves the right to consider each joint application as an application by each joint applicant alone, namely two separate applications, jointly for the number of Offer Shares applied for.

9.4.6 Presentation of cheques for payment or receipt of funds transferred shall not amount to the acceptance of any application.

9.4.7 Applications once given are irrevocable and may not be withdrawn once submitted.

9.4.8 By submitting electronically an Application Form, each applicant:

a) agrees that having had the opportunity to read this Prospectus, he shall be deemed to have had notice of all information and representations concerning AAK contained herein;
b) confirms that in making such application he/she is not relying on any information or representation in relation to AAK other than those contained in this Prospectus and accordingly agrees that no person responsible solely or jointly for this Prospectus or any part thereof shall have any liability for any other information or representation;
c) accepts to receive any communication from AAK, including notices for meetings, through electronic means including but not limited to email or placement of such notices on AAK's website, as well as notification through the mass media;
d) represents and warrants that, except in cases where the applicant is licensed to apply for and hold shares for other persons, the applicant applies for the Offer Shares on his own account, will be the beneficial owner of the Offer Shares, has not represented himself as a different person in any other application nor applied for Offer Shares under a different name, and is not applying for the Offer Shares on the instructions of or on behalf of any other person and has not instructed any other person to apply for Offer Shares as his nominee;
e) being an applicant who is authorised to apply for Offer Shares on behalf of other persons, represents and warrants that he is not making multiple applications for himself or any other person, is not applying as nominee of any person whom he knows

to have applied under any other name or through any other nominee or person or for any beneficial owner more than once;

f) acknowledges that AAK and/or the Lead Transaction Advisors reserves the right to reject any Application found to be in contravention of subparagraphs 9.5.10 (b), (d) and (e) above.

9.4.9 By submitting electronically an Application Form, an applicant agrees to the allotment and issue of such number of Offer Shares (not exceeding the number applied for) as shall be allotted and issued to the applicant upon the terms and conditions of the Prospectus and subject to the Company's Memorandum and Articles of Association, and agrees that the Company may enter the applicant's name in the register of members of the Company as holder of such Offer Shares.

9.5 Submission

Portal

Shareholders should follow the instructions laid out in the form. Shareholders should then confirm that they have read the terms and conditions and click "confirm" a confirmation email/sms will be sent to the shareholder.

9.6 Non-resident Employees/Members

If you receive a link to the Portal or a copy of this document and/or the accompanying Application Form in a jurisdiction other than Kenya, you may not treat it as constituting an invitation or Offer to you, nor should you in any event use such Application Form, unless, in the relevant jurisdiction, the Offer could lawfully be made to, and accepted by, you. It is your responsibility if you are outside Kenya and/or subject to the laws of any other jurisdiction and if you receive a copy of this document and/or the accompanying Form of Acceptance and wish to accept the Offer, to satisfy yourself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any government or other consents and compliance with other necessary formalities, and to pay any transfer or other taxes or duties required to be paid in such jurisdiction in respect of the Offer.

9.7 Acceptance

9.7.1 Acceptance of the Offer once given is irrevocable.

9.7.2 Acceptance may only be communicated by submitting a duly completed Application Form electronically through the portal provided, together with Application Money for the number of Offer Shares specified in the Application on the terms set out in this Prospectus.

9.7.3 The Application must be correctly executed or submitted so as to be binding, while the Application Money must be cleared funds.

9.7.4 The Application and Application Money should be received by the Authorised Agent or the shares registrar through the portal by 4.00 p.m. on Closure Date. Refer to Application Payment below, for details on how to make payment.

9.7.5 If the Application is not completed correctly, AAK may in its sole and absolute discretion reject it or treat it as valid, and AAK's decision as to whether to accept or reject, or how to construe, amend or complete an Application shall be final.

9.7.6 Applications can be rejected as per Rejection Policy below.
9.7.7 Acceptance is subject to regulatory restrictions and obligations under Regulatory Restrictions below.
9.7.8 Over-acceptance will require refunds to be processed for applicants.

9.8 Application payment

9.8.1 All payments to the Receiving Bank must be made in Kenya Shillings.
9.8.2 For amounts above Kshs 1 million, payment can only be made by EFT or RTGS.

Payment for the Offer Shares, can be made directly to the Receiving Bank via Mpesa, Banker's Cheque, EFT or RTGS.

All Banker's Cheque payments to the Receiving Bank should be drawn in favor of '**AA Kenya Plc RPO-Member No. XXXXXXX**' and be crossed "A/C Payee Only". The member number will be as indicated from the online share application platform. The member refers to the Application reference assigned and must be inserted to ease reconciliation. Each Banker's Cheque by the Receiving Bank will be deposited immediately for collection.

9.8.3 The main bank account at the Receiving Bank is:

Account Name	AA Kenya Plc
Bank	Equity Bank (Kenya) Limited
Account Number	0810284649983
SWIFT	EQBLKENA

9.8.4 The Mpesa payment details shall be as follows:

Paybill Number	4121517
Account Name	AA Kenya PLC

9.8.5 All EFT and RTGS transfers must include the name of the investor and the Member Number for immediate reference. This will reduce complications in reconciliation. Where there is non-compliance with these instructions, the application will be rejected.
9.8.6 Any fees payable in securing a Banker's Cheque, EFT or RTGS or other form of payment, will be borne by the investor and not AAK.
9.8.7 Any payments made to the Receiving Bank in accordance with the above, will upon receipt by the Receiving Bank of the relevant amount in cleared funds, constitute acceptance of the Offer upon the terms and conditions set out in this Prospectus and in the Application Form.
9.8.8 No interest will be payable by AAK on any Application Money received for the Offer to any investor.

9.9 Rejection policy

An application will be rejected for the following reasons:

9.9.1 Incomplete, inconsistent or inaccurate with the instructions as provided in the Prospectus, Portal and Application Form;
9.9.2 Insufficient Application Money received by Authorised Agent or Receiving Bank;
9.9.3 Triggered Regulatory Restrictions above and the relevant regulatory approvals were not obtained before Closure Date;
9.9.4 Application Money was correctly received but the Application Form is incorrect or missing.

AAK reserves the right to reject any Application.
AAK and its transaction advisors shall be under no liability whatsoever, should any Application be rejected as per the Rejection Policy under this Section.

9.10 Allocation policy

9.10.1 All valid applications will be allocated in full as per the number of Offer Shares applied for by such applicants in the event of exact or under-subscription.
9.10.2 In the event of over-subscription: applicants will be allocated the minimum number of shares applied for i.e., 1,000 Offer Shares in the first instance and thereafter in multiples of 100 Offer Shares on a pro rata basis, rounded down to the nearest 100 Offer Shares, until all Offer Shares are fully exhausted.

a) In the event that the results of the subscription make the above allocation policy impractical then an amendment to the allocation policy shall be made with the approval of the CMA.
b) In the event of any doubt whatsoever as to the allocation determined by AAK, the decision of AAK will be final.
c) AAK will announce the manner in which the Offer Shares have been allocated to applicants in all categories on the Publish Date.

9.11 Refunds

9.11.1 Refunds will be paid by Mpesa for amounts below Ksh. 150,000.00 and EFT to the bank account details in the application form for amounts above Kshs. 150,000.00. However, if the electronic transfer is declared unsuccessful, a Banker’s Cheque or bank draft may be issued.
9.11.2 AAK will make refunds on Refund Date and will comply with Capital Markets Legislation.
9.11.3 Refund cheques should be collected from the relevant Application Centres against proof of identity and other documentation to the satisfaction of the Authorised Agent.

9.11.4 Payment of refunds to foreign/non-resident investors, shall be made having regard to the prevailing exchange rates and any fluctuations shall be for the investor's account.

9.11.5 Neither AAK, the Receiving Agent, the Receiving Bank nor any transaction advisors to this Offer will be responsible or liable for any refund not received or not received in time, once the refund has been made by AAK, using the data in the application form, as provided by the account holder.

Upon notification by investors for refunds not received, where refunds are sent to the incorrect bank account (or where cheques are cleared incorrectly), by the Receiving Bank on behalf of AAK, AAK will take responsibility and have the transfer or cheque rectified as required. The investor is required to write a letter to AAK who within 5 business days of receipt will be required to investigate and revert back to the investor with the relevant information. Any rectification is expected to be made within a further 5 business days.

The Receiving Bank and Receiving Agent are expected to put in measures to ensure safe custody of cheques and proper verification procedures for clearance of cheques.

10.APPLICATION CENTRES

Persons interested in subscribing for the shares on offer are encouraged to visit any of the branches of the Issuer below for support, if required, on the electronic share application process and accompanying offer documentation. The branches shall also serve as verification centres for proof of transfer of funds to the BANK account (s) provided in this Prospectus.

No	Branch	Location	Phone Number
1	AA Head Office	Renaissance corporate Park, Upperhill	709933801
2	Bamburi	Bamburi Complex, Ground floor	112415287
3	BuruBuru	Gemuwa House, 3rd floor	709333003
4	CBD (Harambee)	Agriculture house, 4th floor- Harambee Avenue	709333129
5	Chuka	Mutegi Murango Building, Ground Floor	709333023
6	Eastleigh	Yare- co-operative Bank Building second floor Eastleigh	707862183
7	Eldoret	Fims Building, 2nd floor	709333010
8	Embakasi	AA House, Catherine Ndereba Road	709933901
9	Embu	Eastern Emporium Building, Kenyatta Highway (above NHIF office)	709333019
10	Hurlingham	APA Arcade, 3rd floor	709933000
11	Juja	Juja Square,3rd Floor	769232599
12	Kahawa Wendani	Opp Kahawa barracks main gate	709333004
13	Kahawa West	DSM Centre, 1st Floor	759743407
14	Kakamega	Equity building, Ambwere Towers, 2nd floor	709333014
15	Karatina	Biashara Street opp Karatina Air market, 1st floor	709333016
16	Karen	Karen Square, 2nd floor	757059157
17	Kasarani	Total Clay city, 2nd floor	709333134
18	Kawangware	Tunza Plaza, 2nd floor	757059245
19	Kayole	Zentrim Plaza, 3rd Floor	718673894
20	Kericho	Koinei Plaza,3rd floor	709333012
21	Kiambu	Kiambu Post office, 1st floor	709333021
22	Kikuyu	Eureka Towers, 3rd floor	709333031
23	Kisii	The Place Building, 3rd floor	709333013
24	Kisumu	Tivoli centre, 2nd floor	709333009
25	Kitale	Yes Plaza Building, 2nd floor	709333011
26	Kitengela	Kitengela Plaza, 1st floor	709333130
27	Kitui	Bonus mall, 2nd floor	709333024
28	Limuru	Gitungo House, 2nd Floor	718776862
29	Machakos	TTEN building, 1st floor - Suite no.1	709333020
30	Meru	Muthui Building behind Society stores, Ground floor	709333018
31	Mombasa	NSSF Building, Ground floor	709333007
32	Mtwapa	Family Bank Building, 1st floor	709333029
33	Naivasha	Wagi House next to NSSF	709333022
34	Nakuru	Gate House Building, 2nd floor	709333008
35	Nanyuki	National bank building, 2nd Floor	709333025

No	Branch	Location	Phone Number
36	Narok	PJ Building, 1st Floor	709333028
37	Nyeri	Lymo Plaza, 2nd floor	709333017
38	Ongata Rongai	Tyme Suite, 4th floor	709333030
39	Ruaraka	Top Brass house 2nd floor along Outering road	709333128
40	Ruiru	New Home Centre, 3rd Floor, Room 303&314 opp Equity off main stage	759166493
41	Sarit	Sarit Centre, 2nd floor	709333001
42	Thika	Twinoak Plaza, 2nd floor	709333006
43	Village Market	Village Market Complex, Ground floor	709333002

MMC ASAFO.

Mombasa Trade Centre
South Wing 3rd Floor,
Nkrumah Road
P.O. Box 90282 - 80100
Mombasa, Kenya
T: +254 41 2225839 | 2225891
M: +254 722 981 412 | 736 426 616
mmcmsa@mmcasafo.com

Our Ref: MMC03139.M0001-2021-CP3-N
Your Ref: TBA
Date: 9th October, 2023

The Directors
AA Kenya PLC
Renaissance Corporate Park, Upper Hill
Lamu Road Garage
Nairobi

Dear Sirs,

LEGAL OPINION ON THE RESTRICTED OFFER OF 7,762,881 SHARES AT AN OFFER PRICE OF KES 25.80 TO THE MEMBERS OF AUTOMOBILE ASSOCIATION HOLDINGS PLC

We refer to the above matter.

1. Background

1.1. We act as legal advisers to AA Kenya PLC ("**the Company**" or "**AAK PLC**") in relation to the restricted public offer to the shareholders of Automobile Association Holdings PLC (**"AAK HoldCo"**) to purchase shares in AAK PLC ("**the Issue**").

1.2. We are Advocates of the High Court of Kenya, practicing and qualified as such to practice in Kenya, and to advise upon the laws of Kenya.

1.3. This legal opinion ("this Opinion") is given in relation to the Issue.

1.4. We have acted as the Legal Advisors in the Issue and have issued this Opinion for inclusion in the Information Memorandum.

1.5. The terms and conditions of the Issue are contained in the Information Memorandum issued by AAK PLC. Capitalised terms used herein shall, unless otherwise defined herein, have the meanings given to them in the Information Memorandum.

2. Preliminary Matters

2.1. This Opinion is limited to Kenyan Law as applied in the Courts of Kenya and as of the date of this Opinion and to matters of fact prevailing as of the date of this Opinion.

• E. MURIU • P. MUNGE • E. OMULELE • I. MUNGAI KAMAU • D. MUSYOKA • J. MWENJE • B. KONGERE.
ABIDJAN CASABLANCA JOHANNESBURG LONDON KIGALI MOMBASA NAIROBI PARIS WASHINGTON DC.

DROPPING ZONE CENTRE
Embassy House, Basement Room 8 & 10,
Box No. 21 Harambee Avenue, Nairobi.

ASAFO & CO.

3. Assumptions and Documents Reviewed

3.1. For the purposes of this Opinion, we have made the following assumptions:

3.1.1. all information contained in the Information Memorandum and all information provided to us by the Company, and its officers and advisers is true, accurate and up to date;

3.1.2. the authenticity and completeness of all documents submitted to us as originals or copies, the genuineness of all signatures, the conformity to originals of all copies, and the accuracy of any translations;

3.1.3. that representations made to us by officers and agents of the Company are true in all material respects; and

3.1.4. the genuineness of all signatures on all documents.

3.2. With respect to matters of fact, we have relied on the representations contained in all documents supplied to us and the representations of the Company, its officers and other advisers.

3.3. For the purposes of this Opinion, we have examined originals or copies certified to our satisfaction of the following documents:

3.3.1. Articles of Association in force as at the date of this Opinion;

3.3.2. The Company's statutory books;

3.3.3. Title documents of immoveable property in the name of the Company;

3.3.4. Details of material contracts and disputes to which the Company is a party;

3.3.5. Audited accounts of the Company of the past year;

3.3.6. Licenses from and correspondence with relevant regulatory authorities; and

3.3.7. Such other records and documents as we have considered necessary or appropriate for the purposes of this Opinion in respect of the Company.

4. Opinion

Based upon and subject to (1) the foregoing; (2) the reservations set out below; and (3) to any matters not disclosed to us, we are of the opinion that:

4.1. Status of the Issuer

4.1.1. The Company is a public limited liability company, duly registered under the Companies Act No. 17 of 2015 of the Laws of Kenya with company number PLC – R2SZ9A.

4.1.2. The disclosure made in the Information Memorandum listing the shareholders of the Issuer is correct.

4.1.3. The registered office of the Issuer is AA House, Catherine Ndereba Road or North Airport Road in Embakasi District, Nairobi City County, P. O. Box 740087-00100, Nairobi, Kenya, L.R. No. 209/12325.

4.1.4. The Company has the power and authority to issue the Issue having obtained the consent of the Board of Directors, the Nairobi Securities Exchange and the Capital Markets Authority.

4.1.5. The Company has, at the date hereof, a Board of Directors consisting of the following individuals:

4.1.5.1. Jinaro Kipkemoi Kibet;

4.1.5.2. Francis Muriuki Theuri;

4.1.5.3. Samuel Ndirangu Gachoka;

4.1.5.4. Aggrey Kipchirchir Bett;

4.1.5.5. Erastus Kabutu Mwongera;

4.1.5.6. Manoj Ramnikal Shah;

4.1.5.7. Julius Njihia Ngugi;

4.1.5.8. Beatrice Atieno Rariewa;

4.1.5.9. Samuel Ndungu Kamau;

4.1.5.10. Samuel Macharia Waweru;

4.1.5.11. Gerald Kariuki Gakima;

4.1.5.12. Harun Njoroge Ngere;

4.1.5.13. Stephen Maina Waweru; And

4.1.5.14. Charles Waithima Githitu.

4.1.6. The Company Secretary of AAK PLC is Image Registrars Limited of P. O. Box 72133 City Square, Nairobi which is a registered Certified Public Secretary firm.

4.2. **Licenses and Consents**

4.2.1. All authorizations, approvals, consents, licenses, exemptions, filings or registrations of or with any governmental or public bodies or authorities of or in Kenya required in connection with the business of the Company have been obtained in proper form, and are in full force and effect.

4.3. **Share Capital**

4.3.1. The authorised share capital of the Company is Kenya Shillings KES 245,466,600) divided into 30,683,325 ordinary shares of Kenya Shillings KES 8 each.

4.3.2. The issued share capital of the Company is Kenya Shillings KES 245,466,600 divided into 30,683,325ordinary shares of Kenya Shillings KES 8 each.

4.3.3. The existing capital of the Company is in conformity with applicable laws and has received all necessary authorizations.

4.4. **Ownership of Assets**

4.4.1. The Company is the registered proprietor of the immovable properties particulars of which are listed in the Information Memorandum.

4.4.2. The Company has also entered into leases and license agreements for the occupation and use of various other premises used as offices and branches.

4.5. **Material Litigation**

4.5.1. The Company is not a party to, and has not been threatened with, any material litigation that has not been disclosed in the Information Memorandum.

4.5.2. Similarly, none of the Directors of the Company are to our knowledge, information and belief after due enquiry involved in any material litigation, prosecution or other civil or criminal legal action.

4.6. **Material Contracts**

4.6.1. Save for contracts entered into in the ordinary course of business, the Company has not entered into any material contracts which are not disclosed in the Information Memorandum.

4.6.2. As at the date of this Information Memorandum, the Company is not in breach of any material contractual obligations except where disclosed in the Information Memorandum.

4.6.3. Excepting for contracts with advisers engaged by the Company for the Issue, there are no other contracts in respect to the Issue which have not been disclosed in the Information Memorandum.

4.7. **Material Borrowings**

4.7.1. The Company is party as a borrower to the following material borrowing contracts:

4.7.1.1. An Asset Finance Loan with Co-operative Bank of Kenya Limited amounting to Kenya Shillings Seventeen Million Five Hundred and Twenty-Five Thousand and Thirty Four Kenyan Shillings (KES. 17,525,034.51); and

4.7.1.2. A Term Loan with Equity Bank (Kenya) Limited whose balance, as at the date of this Opinion is in the sum of Kenya Shillings One Million, Four Hundred Three Thousand, Four Hundred Eighty-Three Kenyan Shillings (KES. 1,403,483.00).

4.7.2. Details of these borrowings are disclosed in the Information Memorandum.

4.7.3. The borrowing powers of the Company have not been exceeded.

5. Consent

5.1. We consent to the inclusion of our legal opinion in the Information Memorandum to be issued for the Issue in the form and context in which it appears. We confirm that we have given and as at the date of issue of the Information Memorandum have not withdrawn our consent to its issue and the inclusion of our legal opinion herein.

6. Reservations

6.1. We express no opinion as to any document other than the material documents expressly referred to above.

6.2. We express no opinion as to any law other than Kenyan law in force, and as interpreted, at the date of this Opinion.

6.3. We express no opinion as to any matter not stated herein.

Yours faithfully,
MURIU, MUNGAI & COMPANY ADVOCATES LLP t/a MMC ASAFO

Isaiah Mungai Kamau
Deputy Managing Partner
imungai@mmcasafo.com
/MM

12. APPENDIX 2: REPORTING ACCOUNTANT'S REPORT

AA KENYA PLC

ACCOUNTANTS REPORT

FOR THE PERIOD 1 JANUARY 2019 TO 30 JUNE 2023

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October 06, 2023

The Directors
AA Kenya PLC
P.O. Box 13500-00100
Nairobi, Kenya

Reporting Accountant's Report – AA Kenya PLC

Introduction

We have completed our assurance engagement to report on the pro-forma financial information of AA Kenya PLC (the Company) which comprise the pro-forma combined statement of profit or loss and other comprehensive income, the pro-forma combined statement of changes in reserves and the pro-forma combined statement of cash flows for the financial years ended 31 December 2019, 2020, 2021 and 2022 and the 6 month period ended 30 June 2023 and the pro-forma combined statement of financial performance as at 31 December 2019, 2020, 2021, 2022 and 30 June 2023 and the related notes.

The pro-forma combined financial information has been derived from the audited consolidated financial statements of the Automobile Association of Kenya for the respective financial years 2019 – 2022 and after the restatements disclosed in Note 21 to the Accountants Report. The pro-forma financial information for the 6-month period ended 30 June 2023 has been derived from the unaudited interim consolidated financial statements of the Automobile Association of Kenya for the six-month period ended 30 June 2023.

The pro-forma financial information has been prepared in accordance with the principles of International Financial Reporting Standards (IFRSs) based on the accounting policies and assumptions adopted as specified in Note 1 to the Accountants Report. Certain adjustments have been made to the pro-forma financial information to reflect the principles of IFRSs that will be applicable for the financial statements of the company for the financial year ending 31 December 2023 and other adjustments to reflect the adoption of the accounting policies and assumptions set-out in Note 1.

As set-out in Note 1 to the Accountants Report, the pro-forma financial information has been compiled to reflect the historical financial performance and position of AA PLC as if the Company and the group existed in its intended form with effect from 1 January 2019.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) together with ethical requirements that are relevant to assurance engagements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

The firm applies International Standard on Quality Management 1 and accordingly maintains a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

PKF Kenya LLP • Kalamu House • Grevillea Grove • Westlands • P O. Box 14077 • 00800 • Nairobi • Kenya
Tel. +254 20 4270000 • Mobile +254 723 144000 • Email: pkfnbi@ke.pkfea.com • www.pkfea.com

Directors' Responsibilities for the Pro-forma Financial Information

The directors' of AA Kenya PLC are responsible for the compilation of the pro-forma financial information in accordance with the account policies and assumptions set-out in Note 1 to the Accountants Report. That responsibility includes application by the directors of judgment required for the preparation and presentation of the financial information, including selection and application of appropriate accounting policies and developing reasonable accounting estimates.

The directors of AA Kenya PLC are also responsible for the preparation of the Information Memorandum and all the information contained therein.

Our responsibility and procedures applied

Our responsibility is to express an opinion about whether the pro-forma financial information has been compiled, in all material respects, by the directors on the basis of the accounting policies and assumptions set-out in Note 1.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, Assurance Engagements to Report on the Compilation of Proforma Financial Information Included in the Prospectus issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Company has compiled, in all material respects, the pro-forma financial information on the basis of the accounting policies and assumptions in Note 1.

For the purposes of this engagement we, are not responsible for updating or reissuing any reports or opinions on any historical information used in compiling the pro-forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro-forma financial information.

The purpose of the pro-forma financial information included in the information memorandum is solely to illustrate the combined financial performance and position of the Company as if it existed in its intended form from 1 January 2019 to 30 June 2023. Accordingly, we do not provide any assurance that the actual outcome of the financial performance and position at the end of the reporting periods would have been as presented.

A reasonable assurance engagement to report on whether the pro-forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in compilation of the pro-forma financial information provides a reasonable basis for presenting the outcome of the intended financial performance and position of the Company, and to obtain sufficient appropriate evidence about whether the pro-forma financial statements reflect the applicable criteria including the adjustments made in arriving at the pro-forma financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the transaction to which the Information Memorandum relates and other relevant engagement circumstances.

Our engagement also involves evaluating the overall presentation of the pro-forma financial information.

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

Opinion

In our opinion, the pro-forma financial information has been compiled based on the principles of International Financial Reporting Standards and accounting policies and assumptions applied by the directors as set-out in Notes 1 and 2 to the Accountants Report.

Intended users and purpose

This report has been prepared for inclusion in the Information Memorandum of the Company prepared for the purposes of transfer of business from Automobile Association of Kenya to AA Kenya PLC. As a result, this report may not be suitable for another purpose. It has been prepared solely for the directors of AA Kenya PLC for inclusion in the Information Memorandum. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We consent to the inclusion of this report in the AA Kenya PLC Information Memorandum to be issued in the form and context in which it appears.

The engagement partner responsible for the assurance engagement resulting in this reporting accountant's report is FCPA Chaudhry Mohamed Asif, Practising No. 2059

For and on behalf of PKF Kenya LLP
Certified Public Accountants
NAIROBI

9 October 2023

1284/2023

COMBINED PROFORMA STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	6 months 2023 Shs	12 months 2022 (Restated*) Shs	12 months 2021 (Restated*) Shs	12 months 2020 (Restated*) Shs	12 months 2019 (Restated*) Shs
Revenue	2	433,378,586	698,112,353	584,936,901	468,977,217	699,038,565
Direct expenses		(201,405,576)	(349,830,494)	(304,771,012)	(232,548,742)	(319,572,645)
Gross profit		231,973,010	348,281,859	280,165,889	236,428,475	379,465,920
Other operating income	3	1,289,959	9,183,674	18,948,220	6,658,272	22,682,117
Administrative expenses		(137,333,111)	(223,324,682)	(185,636,997)	(149,180,177)	(240,745,823)
Impairment losses on financial assets	4(a)	(712,671)	6,088,503	(2,212,792)	(8,542,788)	(14,473,793)
Other operating expenses		(41,270,982)	(65,718,834)	(59,992,965)	(57,731,156)	(69,007,994)
Operating profit	4(b)	53,946,205	74,510,520	51,271,355	27,632,626	77,920,427
Finance costs	5	(8,374,440)	(23,584,561)	(32,094,835)	(34,066,766)	(27,061,803)
Profit/(loss) before tax		45,571,765	50,925,959	19,176,520	(6,434,140)	50,858,624
Tax (charge)/credit	6	(9,198,133)	(1,807,940)	-	(9,035)	8,280
Profit/(loss) for the period/year		36,373,632	49,118,019	19,176,520	(6,443,175)	50,866,904
Total comprehensive income/(loss) for the period/year		36,373,632	49,118,019	19,176,520	(6,443,175)	50,866,904

The notes on pages 9 to 43 form an integral part of these proforma financial statements.

*Refer to note 21 to these proforma financial statements.

COMBINED PROFORMA STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2023 Shs	31 December 2022 (Restated*) Shs	31 December 2021 (Restated*) Shs	31 December 2020 (Restated*) Shs	31 December 2019 (Restated*) Shs
Members funds						
Retained earnings		153,907,556	117,533,924	68,415,905	49,239,385	55,682,560
Non-current liabilities						
Borrowings	8	-	-	-	50,007,677	30,579,033
Lease liabilities	18	21,814,237	31,744,305	93,953,378	124,662,372	160,937,894
Retirement benefit obligations	19	2,280,960	-	19,008,000	15,840,000	12,672,000
		24,095,197	31,744,305	112,961,378	190,510,049	204,188,927
		178,002,753	149,278,229	181,377,283	239,749,434	259,871,487
REPRESENTED BY						
Non-current assets						
Deferred tax	9	5,594,698	533,953	-	-	9,035
Property and equipment	10	127,863,658	135,295,269	150,929,362	167,495,943	147,638,444
Intangible assets	11	2,726,361	3,924,755	5,979,825	7,309,094	9,987,287
Right-of-use assets	12	52,740,138	82,952,955	137,548,068	153,159,729	188,731,610
		188,924,855	222,706,932	294,457,255	327,964,766	346,366,376
Current assets						
Inventories	13	3,533,190	4,708,207	5,033,431	4,471,953	5,878,279
Trade and other receivables	14	126,389,870	104,835,907	79,586,757	86,760,809	108,803,200
Cash and cash equivalents	15	23,222,776	9,131,085	13,135,547	5,779,291	11,382,170
Tax recoverable		9,003,273	18,332,957	16,256,465	14,344,512	10,670,362
		162,149,109	137,008,156	114,012,200	111,356,565	136,734,011
Current liabilities						
Borrowings	8	33,691,207	45,139,076	51,625,560	36,695,649	29,128,061
Trade and other payables	16	67,919,512	66,256,590	73,210,223	76,846,131	116,128,374
Contract liabilities	17	31,868,854	32,437,191	38,758,045	39,905,389	39,315,793
Lease liabilities	18	39,591,638	66,604,002	63,498,344	46,124,728	38,656,672
		173,071,211	210,436,859	227,092,172	199,571,897	223,228,900
Net current (liabilities)		(10,922,102)	(73,428,703)	(113,079,972)	(88,215,332)	(86,494,889)
		178,002,753	149,278,229	181,377,283	239,749,434	259,871,487

The financial statements on pages 4 to 43 were approved and authorised for issue by the Board of Directors

on ________________________ 2023 and were signed on its behalf by:

________________________ DIRECTOR ________________________ DIRECTOR

The notes on pages 9 to 43 form an integral part of these proforma financial statements.

*Refer to note 21 to these financial statements.

COMBINED PROFORMA STATEMENT OF CHANGES IN RESERVES

Year ended 31 December 2019	**Notes**	**Revaluation reserve Shs**	**Retained earnings Shs**	**Total Shs**
At start of the year as previously stated		-	23,301,150	23,301,150
Prior year adjustments				
- Provision for long-term service dues	21(a)	-	(9,504,000)	(9,504,000)
- Unclaimable input VAT (exempt sales)	21(a)	-	(6,865,186)	(6,865,186)
Transition adjustment				
- Changes on initial application of IFRS 9	21(b)	-	982,142	982,142
- Changes on initial application of IFRS 16	21(b)	-	(3,098,450)	(3,098,450)
At start of year as restated		-	4,815,656	4,815,656
Total comprehensive income for the year		-	50,866,904	50,866,904
At end of year		-	55,682,560	55,682,560
Year ended 31 December 2020				
At start of year as previously stated		-	74,812,729	74,812,729
Prior year adjustments				
- Provision for long-term service dues	21(a)	-	(9,504,000)	(9,504,000)
- Change in depreciation estimate	21(a)		(735,261)	(735,261)
- Unclaimable input VAT (exempt sales)	21(a)	-	(6,865,186)	(6,865,186)
Transition adjustment				
- Changes on initial application of IFRS 9	21(b)	-	951,947	951,947
- Changes on initial application of IFRS 16	21(b)	-	(2,977,669)	(2,977,669)
At start of year as restated		-	55,682,560	55,682,560
Total comprehensive loss for the year		-	(6,443,175)	(6,443,175)
At end of year		-	49,239,385	49,239,385
Year ended 31 December 2021				
At start of year as previously stated		139,315,565	68,690,182	208,005,747
Prior year adjustments				
- Provision for long-term service dues	21(a)	-	(9,504,000)	(9,504,000)
- Reversal of surplus on revaluation	21(a)	(139,315,565)	-	(139,315,565)
- Change in depreciation estimate	21(a)	-	(1,683,009)	(1,683,009)
- Unclaimable input VAT (exempt sales)	21(a)	-	(6,865,186)	(6,865,186)
Transition adjustment				
- Changes on initial application of IFRS 9	21(b)	-	883,878	883,878
- Changes on initial application of IFRS 16	21(b)	-	(2,282,480)	(2,282,480)
At start of year as restated		-	49,239,385	49,239,385
Total comprehensive loss for the year		-	19,176,520	19,176,520
At end of year		-	68,415,905	68,415,905

The notes on pages 9 to 43 form an integral part of these proforma financial statements.

COMBINED PROFORMA STATEMENT OF CHANGES IN RESERVES (CONTINUED)

Year ended 31 December 2022	**Notes**	**Revaluation reserve Shs**	**Retained earnings Shs**	**Total Shs**
At start of the year as previously stated		137,718,379	88,655,962	226,374,341
Prior year adjustments				
- Provision for long-term service dues	21(a)	-	(9,504,000)	(9,504,000)
- Reversal of surplus on revaluation	21(a)	(137,718,379)	-	(137,718,379)
- Change in depreciation policy	21(a)	-	(4,193,188)	(4,193,188)
- Unclaimable input VAT (exempt sales)	21(a)	-	(6,865,186)	(6,865,186)
Transition adjustment				
- Changes on initial application of IFRS 9	21(b)	-	940,932	940,932
- Changes on initial application of IFRS 16	21(b)	-	(618,615)	(618,615)
At start of year as restated		-	68,415,905	68,415,905
Total comprehensive income for the year		-	49,118,019	49,118,019
At end of year		-	117,533,924	117,533,924
Period ended 30 June 2023				
At start of period		-	117,533,924	117,533,924
Total comprehensive income for the period		-	36,373,632	36,373,632
At end of period		-	153,907,556	153,907,556

The notes on pages 9 to 43 form an integral part of these proforma financial statements.

COMBINED PROFORMA STATEMENT OF CASH FLOWS

Cash flows from operating activities	**Notes**	**2023 Shs**	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
Profit/(loss) before tax		45,571,765	50,925,959	19,176,520	(6,434,140)	50,858,624
Adjustments for:						
Depreciation on property and equipment	10	12,050,211	24,674,623	24,538,168	23,259,107	17,214,212
Depreciation on right of use assets	12	30,212,817	59,357,231	55,798,256	46,397,197	33,252,185
Amortisation of intangible assets	11	1,198,394	2,680,195	3,015,169	2,678,193	2,678,484
(Gain) on disposal of property and equipment	3	(16,212)	(441,387)	(4,881,237)	(271,870)	(5,375,008)
Interest expense	6	8,374,440	23,584,561	32,094,835	34,066,766	27,061,803
Increase provision for retirement benefit obligations	19	2,280,960	3,801,600	3,168,000	3,168,000	3,168,000
Benefits paid	19	-	(22,809,600)	-	-	-
Changes in working capital:						
- inventories		1,175,017	325,224	(561,478)	1,406,326	(5,635,671)
- trade and other receivables		(21,553,963)	(25,249,150)	7,174,052	22,042,871	(30,211,084)
- trade and other payables		1,662,922	(6,953,631)	(3,635,908)	(39,282,243)	4,415,695
- contract liabilities		(568,337)	(6,320,854)	(1,147,344)	589,596	-
Cash from operations		80,388,014	103,574,770	134,739,033	87,619,803	97,427,240
Tax paid		(4,508,598)	(4,418,387)	(1,911,955)	(3,674,630)	(1,566,688)
Net cash from operating activities		75,879,416	99,156,383	132,827,078	83,945,173	95,860,552
Cash (used in) investing activities						
Changes in restricted cash balances		-	-	-	1,000,000	-
Purchase of property and equipment	10	(4,629,274)	(9,120,321)	(8,693,205)	(43,154,710)	(29,144,386)
Purchase of intangible assets	11	-	(625,125)	(1,685,900)	-	(10,716,607)
Proceeds from disposal of property and equipment		50,000	521,179	5,602,856	309,974	6,613,509
Net cash (used in) investing activities		(4,579,274)	(9,224,267)	(4,776,249)	(41,844,736)	(33,247,484)
Cash flows (used in) financing activities						
Interest paid		(3,139,218)	(7,081,270)	(9,936,573)	(10,046,350)	(6,820,583)
Payments of principal portion of the lease liabilities	18	(42,177,703)	(80,368,824)	(75,680,234)	(63,653,198)	(45,410,001)
Proceeds from borrowings	8	-	-	-	39,308,100	-
(Repayment) of borrowings	8	(10,003,467)	(18,207,185)	(15,997,378)	(10,833,214)	(13,011,338)
Net cash (used in) financing activities		(55,320,388)	(105,657,279)	(101,614,185)	(45,224,662)	(65,241,922)
Increase/(decrease) in cash and cash equivalents		15,979,754	(15,725,163)	26,436,644	(3,124,225)	(2,628,854)
Movement in cash and cash equivalents						
At start of period/year		(5,589,616)	10,135,547	(16,301,097)	(13,176,872)	(10,548,018)
Increase/(decrease)		15,979,754	(15,725,163)	26,436,644	(3,124,225)	(2,628,854)
At end of period/year	15	10,390,138	(5,589,616)	10,135,547	(16,301,097)	(13,176,872)

The notes on pages 9 to 43 form an integral part of these proforma financial statements.

NOTES

1. **SIGNIFICANT ACCOUNTING POLICIES**

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

a) **Basis of preparation**

AA Kenya PLC was incorporporated on 22 November 2022. AA Kenya PLC will be acquiring the businesses historically performed by the Automobile Association of Kenya and its subsidiaries. The financial statements of the Automobile Association of Kenya were prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

The combined proforma financial statements have been prepared to reflect the historical financial information of AA Kenya PLC on the assumption that it existed with effect from 1 January 2019 in its intended form of having acquired the businesses of the Automobile Association of Kenya and its subsidiaries as of that date. In preparing these proforma financial statements, the principles of merger accounting have been applied which result in recognition of no goodwill or other fair value adjustments on the acquisition of the businesses.

The combined proforma financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS) and the accounting policies that will be in effect for the year ending 31 December 2023.

Note 21(b) sets out the adjustments made to reflect the transition of the financial statements previously prepared by the Automobile Association of Kenya under IFRS for SMEs to IFRS including correction of errors included in the audited financial statements and revisions to estimates.

The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these combined financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 - Inventories or value in use in IAS 36 - Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

Going concern

The group's current liabilities exceeded current assets by Shs. 10,922,102 for the period ended 30 June 2023 and by Shs. 73,428,703 for the year ended 31 December 2022. The high levels of current liabilities are as a result of contract liabilities which represent subscription by members in advance and lease liabilities arising from leases for motor vehicles, office spaces and leasehold land.

NOTES (CONTINUED)

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

a) **Basis of preparation (continued)**

Going concern (continued)

The Director's have assessed the going concern status of the group. Whilst the factor above indicates a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern, the financial statements of the group have been prepared on a going concern basis based on the factors below:

- In November 2022 the Governing Concil approved a budget of Shs. 900 million for year 2023 and the estimated profit after tax estimated at Shs. 82 million. A subsequent review of the group's performance as at 31 July 2023 shows that the actual revenue realised was Shs. 466 million representing a 98% budget achievement. The profit after tax for the period to 31 July 2023 was Shs. 55 million representing a 99% budget achievement. This is indicative proof that the group will continue to be profitable and generate cash flows to settle its liabilities as they fall due.
- The group is implementing a five year strategy for the period 2022 to 2026, the strategic pillars of the group in this strategy include;
  i) Profitable and sustainable growth
  ii) Customer centricity and partnerships
  iii) Digital transformation and innovation
  iv) Operational excellence, risk and compliance
  v) Engaged and productive human capital
  vi) Road safety and corporate social responsibility

  Through these strategic pillars the group aims to achieve an overall revenue of Shs. 1.6 billion by year 2026, and achieve profits of Shs. 248 million. This will be achieved through branch network expansion to 70 locations from the current 35, increased customer retention, full digitization of AA front and back-office operations, embedding risk management culture and enhanced employee productivity.

In view of the above, the governing council is of the opinion that the group will be operating as a going concern for at least 12 months from the date of approval of these financial statements, and have therefore prepared these financials statements on a going concern basis.

New standards, amendments and interpretations adopted by the group

The group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use'

The amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the financial statements of the group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning the earliest period presented.

Amendments to IAS 37 'Onerous Contracts – Costs of Fulfilling a Contract'

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

NOTES (CONTINUED)

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

a) **Basis of preparation (continued)**

New standards, amendments and interpretations adopted by the group (continued)

Amendments to IAS 37 'Onerous Contracts – Costs of Fulfilling a Contract' (continued)

These amendments had no impact on the financial statements of the group as the group did not identify any contracts as being onerous at the beginning and end of the reporting period.

Amendment to IAS 41 Agriculture 'Taxation in fair value measurements'

The amendment removed the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards 'Subsidiary as a first-time adopter'

The amendment provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity. This exemption is also available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

These amendments had no impact on the financial statements of the group as it is not a first time adopter.

Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework

The amendments added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. The amendments also clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the financial statements of the group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

Amendment to IFRS 9 Financial Instruments 'Fees in the '10 per cent' test for derecognition of financial liabilities'

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The amendment had no impact on the financial statements of the group as there were no modifications of the group's financial instruments during the period.

- **Amendments to IAS 1 and IFRS Practice Statement 2** - Disclosure of Accounting Policies (issued in February 2021)

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

  The group is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

NOTES (CONTINUED)

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

a) **Basis of preparation (continued)**

New standards, amendments and interpretations adopted by the group (continued)

- **Amendments to IAS 8 'Definition of Accounting Estimates'** - These amendments, introduce a definition of 'accounting estimates' and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

  The amendments are not expected to have a material impact on the group's financial statements.

- **Amendments to IAS 12 'Deferred Tax Related to Assets and Liabilities arising from a Single Transaction** - These amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

  The group is currently assessing the impact of the amendments.

- **IFRS 17 'Insurance Contracts'** - IFRS 17, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The group does not issue insurance contracts.

- **Amendments to IFRS 9 and IFRS 17 'Initial application of IFRS 17 and IFRS 9 – Comparative Information'** - These amendments are applicable on initial application of IFRS 17, add a transition option relating to comparative information about financial assets presented on initial application of IFRS 17.

Except where indicated above, the directors do not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The group plans to apply the changes above, if applicable, from their effective dates.

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these combined proforma financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective for the year presented:

- **Amendments to IAS 1 'Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)**, effective for annual periods beginning or after 1 January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement for at least 12 months after the reporting date.

- **Amendments to IAS 1 'Non-current Liabilities with Covenants' (issued in October 2022)** effective for annual periods beginning on or after 1 January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.

- **Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued in September 2014),** applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should berecognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

- **Amendment to IFRS 16 'Lease Liability in a Sale and Leaseback' (issued in September 2022),** effective for annual periods beginning on or after 1 January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.

The directors do not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The group plans to apply the changes above from their effective dates.

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

b) **Significant accounting judgements, estimates and assumptions**

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- **Measurement of expected credit losses (ECL):**

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs are based primarily on the product of the instrument’s Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD).

The ECL model applied for financial assets, other than trade receivables, contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

NOTES (CONTINUED)

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

b) **Significant accounting judgements, estimates and assumptions (continued)**

- **Measurement of expected credit losses (ECL): (continued)**

Assessment of significant increase in credit risk: The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments that are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The group uses these guidelines in determining the staging of its financial assets unless there is persuasive evidence available to rebut these presumptions.

For trade receivables, the group has applied the simplified model under IFRS 9 where lifetime expected credit loss allowance is recognised on the basis of a provisioning matrix.

The carrying amounts of the group's financial assets that are subject to impairment assessment are disclosed in notes 14 and 15.

- **Useful lives, depreciation methods and residual values of property and equipment, intangible assets and right-of-use assets**

Management reviews the useful lives, depreciation methods and residual values of the items of property and equipment, intangible assets and right-of-use assets on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values. The carrying amounts of property and equipment, right-of-use assets and intangible assets are disclosed in notes 10, 11 and 12, respectively.

- **Accounting for leases under IFRS 16**

Management has made various judgements and estimates under IFRS 16 as detailed below:

Incremental borrowing rate: To determine the incremental borrowing rate, the group:
- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease term/period: In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of leasehold land, office spaces and, motor vehicles the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend (or not terminate).
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability, because the group could replace the assets without significant cost or business disruption.

NOTES (CONTINUED)

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

b) **Significant accounting judgements, estimates and assumptions (continued)**

- **Accounting for leases under IFRS 16 (continued)**

The lease term is reassessed if an option is actually exercised (or not exercised) or the group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

The carrying amounts of lease liabilities and right-of-use assets are disclosed in notes 18 and 12, respectively.

c) **Revenue recognition**

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

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

i) Driving school revenue is accounted for upon registration of student and is recognised over the lessons delivered.
ii) Technical and towing fees is recognised upon performance of sevices and acceptance of the services by the customer.
iii) Rental income is accrued by reference to time on a straight line basis over the lease term.
iv) Subscriptions are recognised over the period of time.
v) Insurance brokerage commission is accounted for on accrual basis.

d) **Investment in subsidiaries/Consolidation**

The combined proforma financial statements comprise the financial statements of the Group and its subsidiaries as will be in place once the acquisition in 1(a) is completed. Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies. Control is achieved when the company; has power over the investee; is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The group also assesses the existence of control where it does not have the power of majority of the voting rights but is able to govern the financial and operating policies of a subsidiary. Control may arise in certain circumstances where including the size of the group’s voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies, where potential voting rights are held by the group and rights from other contractual arrangements.

When the group has assessed and has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

NOTES (CONTINUED)

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

d) **Investment in subsidiaries/Consolidation (continued)**

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Assets, liabilities, income and expenses liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined proforma financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

- Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in the statement of changes in equity.

- Disposal of subsidiaries

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

- Business combinations

The group applies the acquisition method to account for business combinations other than combinations of businesses under common control. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to/by the group, liabilities incurred by the group to the former owners of the acquiree and the equity interests issued by the group in exchange for control of the acquire. Acquisition related costs are generally recognised in profit or loss as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments' are recognised in profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

NOTES (CONTINUED)

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

d) **Investment in subsidiaries/Consolidation (continued)**

- Business combinations (continued)

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

For acquisition of of business under common control, the merger basis of accounting is applied where acquisitions are measured at historical carrying value with no recognition of goodwill.

e) **Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at the rates ruling at the transaction dates. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. The resulting differences from settlement and translation of monetary items are dealt with in profit or loss in the year in which they arise .

f) **Property and equipment**

All property and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation and any accumulated impairment losses (except as stated below). 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 group 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.

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

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

	Rate %
Leasehold improvements	Over remaining lease period
Buildings	2
Motor vehicles	20 - 25
Furniture and fittings	12.5 - 20
Equipment	2 - 33

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

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.

An item of property and equipment is derecognised upon disposal or when no future future economic benefits are expected from its use or disposal. 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/loss.

NOTES (CONTINUED)

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

g) **Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Computer software
Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be 5 years.

h) **Financial instruments**

Financial instruments are recognised when, and only when, the group becomes party to the contractual provisions of the instrument.

- ***Financial assets***

Purchases or sales of financial assets are recognised initially using the trade date accounting which is the date the group commits itself to the purchase or sale.

The group classifies its financial assets into the following categories:

i) **Amortised cost;**
Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance measured and recognised.

ii) **Fair Value Through Other Comprehensive Income (FVTOCI)**:
Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are classified and measured at value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gains and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

iii) **Fair Value Through Profit or Loss (FVTPL)**:
Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss and other comprehensive income.

At initial recognition of a financial asset, the group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The group reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period, the group has not identified a change in its business models.

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

h) **Financial instruments (continued)**

- ***Financial assets (continued)***

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset asset have expired, when the group has transferred substantially all risks and rewards of ownership, or when the group has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Impairment
Debt instruments that are subsequently measured at amortised cost or at impairment assessment. No impairment loss is recognised on investments measured at FVTPL.

The group recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI):

- Cash and cash equivalents
- Trade and other receivables
- Other financial assets

The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which:
- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the reporting date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

NOTES (CONTINUED)

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

h) **Financial instruments (continued)**

- ***Financial liabilities***

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The group may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

- All other financial liabilities are classified and measured at **amortised cost.**

All financial liabilities are recognised initially at fair value and, in the case of loans and and borrowings and payables, net of directly attributable transaction costs.

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

- **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

- **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a currently enforceable legal 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) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

j) **Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and financial assets with maturities of less than 91 days, net of bank overdrafts and money market lines.

Restricted cash balances are those balances that the group cannot use for working capital purposes as they have been placed as a lien to secure borrowings.

In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

k) **Share capital**

Ordinary shares are classified as equity.

NOTES (CONTINUED)

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

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 the other comprehensive income or in equity. In this case, the tax is also recognised in other comprehensive income or equity.

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

Deferred tax
Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the reporting date. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the carry forward of unused tax credits and tax credits and unused tax losses can be utilised.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recoverable entirely through sale unless presumption is rebutted. The presumption is rebutted when the investment property is depreciable and held within a business model whose objective is to consume substantially all its economic benefits embodied in it over time rather than through sale.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The Group offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

m) **Accounting for leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The group as lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the group recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the group is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the group's incremental borrowing rate is used.

For leases that contain non-lease components, the group allocates the consideration payable to the lease and non-lease components based on their relative stand-alone prices.

NOTES (CONTINUED)

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

m) **Accounting for leases (continued)**

The group as lessee (continued)

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the group at the end of the lease term, the estimated useful life would not exceed the lease term.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

n) **Impairment of non-financial assets**

At the end of each reporting period, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

n) **Impairment of non-financial assets (continued)**

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

o) **Employee entitlements**

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

p) **Retirement benefit obligations**

Employee entitlements to 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 reporting date.

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

p) **Retirement benefit obligations (continued)**

The group operates a defined contribution staff retirement benefit scheme for its permanent and pensionab employees. The scheme is administered by an insurance company. The group's contributions to the define contribution staff retirement benefit scheme are charged to profit or loss in the year to which they relate. Th company has no further payment obligations once the contributions have been paid.

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.

q) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the asset based either on actual cost on specific borrowings or, in the case of general borrowings, based on a weighted average cost.

Capitalisation of borrowing costs ceases when all activities necessary to prepare the asset for its intended use or sale are complete. All other borrowing costs are recognised in profit or loss.

r) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period as disclosed in Note 21.

NOTES (CONTINUED)

		2023	2022	2021	2020	2019
2.	**Revenue**	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**
	Driving school	228,870,555	320,667,862	291,622,157	244,051,459	416,614,445
	Technical fees	41,517,073	81,536,971	56,405,132	56,096,842	75,958,484
	Membership subscriptions	61,188,290	132,828,989	116,231,209	87,484,806	91,000,611
	International driving permits	27,657,207	40,152,181	22,875,348	12,557,222	27,436,653
	Towing fees	10,817,068	28,626,286	21,439,730	17,608,866	24,902,236
	Seminar income	19,766,279	32,478,148	30,345,496	9,738,245	19,067,380
	Brokerage commission	9,637,889	19,702,807	9,293,709	-	-
	Installation income	13,080,711	14,245,992	12,107,518	8,027,864	3,171,134
	Institute income	3,717,028	3,014,912	2,502,801	677,010	118,631
	Carnet de passage sales	3,195,423	4,408,270	3,006,835	3,251,172	4,754,867
	Revenue from sale of materials	7,585,070	11,141,247	10,137,234	8,868,243	10,836,101
	License service charges	6,345,993	9,308,688	8,969,732	6,892,176	9,021,810
		433,378,586	698,112,353	584,936,901	468,977,217	699,038,565
3.	**Other operating income**					
	Rental income	315,086	638,793	636,207	632,540	609,310
	Miscellaneous income	958,661	6,628,494	3,528,914	1,676,150	10,451,016
	Reversal of prior year bad debts written off now recovered	-	-	4,313,040	4,077,712	6,246,783
	Fédération Internationale de l'Automobile grants	-	1,475,000	5,588,822	-	-
	Gain on disposal of property and equipment	16,212	441,387	4,881,237	271,870	5,375,008
		1,289,959	9,183,674	18,948,220	6,658,272	22,682,117
4(a)	**Impairment losses on financial assets**					
	Impairment (reversals)/losses on trade receivables (Note 14)	(1,023,369)	(6,101,445)	2,180,874	8,589,444	14,577,318
	Impairment losses/(reversals) on bank balances (Note 15)	1,736,041	12,942	31,918	(46,656)	(103,525)
		712,671	(6,088,503)	2,212,792	8,542,788	14,473,793
4(b)	**Operating surplus/(deficit)**					
	The following items have been charged in arriving at operating surplus/(deficit)					
	Depreciation on property and equipment (Note 10)	12,690,557	24,678,888	24,542,432	23,259,107	17,214,212
	Depreciation on right of use assets (Note 12)	30,163,542	59,352,965	55,793,990	46,397,197	33,247,919
	Amortisation of intangible assets (Note 11)	1,198,394	2,680,195	3,015,169	2,678,193	2,678,484
	Gain on disposal of property and equipment (Note 3)	(16,212)	(441,387)	(4,881,237)	(271,870)	(5,375,008)
	Governing council remuneration (Note 20)	13,054,298	24,874,502	18,569,938	6,362,111	27,415,780
	Auditors' remuneration					
	- current year	1,014,908	1,460,000	1,460,000	1,160,000	1,460,000
	- under provision in prior years	61,666	109,996	109,996	109,996	30,986
	Operating lease rentals	6,669,768	3,298,390	1,592,381	2,552,273	17,088,722
	Provision for doubtful debts	712,671	(6,088,503)	2,212,792	8,542,788	14,473,793
	Repairs and maintenance	1,389,826	1,230,653	1,514,043	979,231	2,401,888
	Staff costs (Note 5)	208,875,899	372,732,922	315,596,460	253,069,383	384,108,325
5.	**Staff costs**					
	Salaries and wages	169,014,269	315,426,789	278,449,215	215,799,937	321,223,438
	Staff costs	31,159,187	44,182,887	25,032,497	27,530,447	50,235,025
	Pension costs:					
	- defined contribution scheme	7,809,443	12,230,246	11,443,948	9,068,199	11,524,262
	- National Social Security Fund	893,000	893,000	670,800	670,800	1,125,600
		208,875,899	372,732,922	315,596,460	253,069,383	384,108,325

NOTES (CONTINUED)

5. **Staff costs (continued)**

The average number of persons employed during the year, by category, were:	2023 No	2022 No	2021 No	2020 No	2019 No
Executive team	8	8	7	6	7
Technical	249	220	151	170	188
Sales and marketing	140	123	126	106	116
Support functions	33	31	26	29	35
Total	430	382	310	311	346

6. **Finance costs**

	2023 Shs	2022 Shs	2021 Shs	2020 Shs	2019 Shs
Interest expense:					
- lease liability	5,235,222	16,503,291	22,158,262	24,020,416	20,241,220
- bank loans	2,689,377	6,313,640	9,152,290	7,477,245	5,626,622
- bank overdrafts	449,841	767,630	784,283	2,569,105	1,193,961
	8,374,440	23,584,561	32,094,835	34,066,766	27,061,803

7. **Tax**

	2023	2022	2021	2020	2019
Current tax	14,258,878	2,341,893	-	-	-
Deferred tax (credit)/charge (Note 9)	(5,060,744)	(533,953)	-	9,035	(8,280)
Tax charge/(credit)	9,198,133	1,807,940	-	9,035	(8,280)

The tax on the group's surplus/(deficit) before tax differs from the theoretical amount that would arise using the basic rate as follows:

	2023	2022	2021	2020	2019
Surplus/(deficit) before tax	45,571,765	50,925,959	19,176,520	(6,434,140)	50,858,624
Tax at the statutory rate*	13,671,530	15,277,788	5,752,956	(1,608,535)	15,257,587
Tax effect of:					
- Effect of change in tax rate	-	-	-	464,865	-
- expenses not deductible for tax purposes	16,425	19,725	239,795	-	95,684
- income not subject to tax	(4,489,822)	(12,074,945)	(5,637,217)	(1,592,478)	(14,801,282)
- deferred tax on tax losses brought forward	-	(1,414,628)	(1,263,064)	(2,699,878)	(3,340,424)
- deferred tax on tax losses carried forward	-	-	907,530	5,413,509	2,780,155
Tax charge/(credit)	9,198,133	1,807,940	-	9,035	(8,280)

*Tax has been calculated at a rate of 30% for years 2019, 2021, 2022 and for the period ended June 2023, and a rate of 25% for the year ended 2020.

8. **Borrowings**

The borrowings are made up as follows:	2023 Shs	2022 Shs	2021 Shs	2020 Shs	2019 Shs
Non-current					
Bank loans	-	-	-	50,007,677	30,579,033
Current					
Bank loan	23,414,908	33,418,375	51,625,560	17,615,261	8,569,019
Bank overdraft (Note 15)	10,276,299	11,720,701	-	19,080,388	20,559,042
	33,691,207	45,139,076	51,625,560	36,695,649	29,128,061
Total borrowings	33,691,207	45,139,076	51,625,560	86,703,326	59,707,094

NOTES (CONTINUED)

8. **Borrowings (continued)**

Reconciliation of liabilities arising from financing activities:	**2023 Shs**	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
At start of year	53,496,291	71,703,476	87,700,855	59,225,968	72,237,306
Interest charged to profit or loss	3,139,218	7,081,270	9,936,573	10,046,350	6,820,583
Cash flows:					
- Operating activities (interest paid)	(3,139,218)	(7,081,270)	(9,936,573)	(10,046,350)	(6,820,583)
- Proceeds from borrowings	-	-	-	39,308,100	-
- Repayments of borrowings	(10,003,466)	(18,207,185)	(15,997,378)	(10,833,214)	(13,011,338)
At end of year	43,492,825	53,496,291	71,703,476	87,700,855	59,225,968

The bank borrowings, overdraft and finance leases are secured by a corporate guarantee by AA Limited supported by a first legal charge of Shs. 96 million over property L.R. No. 209/12325.

The borrowing facilities expiring within one year are subject to review at various dates during the next financial year.

The exposure of the group's borrowings to interest rate changes and the contractual repricing rates at the reporting date are as follows:

	2023 Shs	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
Between 1 - 12 months	33,691,207	45,139,076	51,625,560	36,695,649	29,128,061
Over 1 years	-	-	-	50,007,677	30,579,033
	33,691,207	45,139,076	51,625,560	86,703,326	59,707,094

Weighted average effective interest rates at the year-end were as follows:	**2023 %**	**2022 %**	**2021 %**	**2020 %**	**2019 %**
Bank overdraft	15%	15%	14%	14%	14%
Bank loans	13%	13%	13%	13%	13%

The carrying amounts of the group's borrowings are denominated in Kenya Shillings.

Maturity based on the repayment structure of non-current borrowings is as follows:

	2023 Shs	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
Between 1 and 2 years	-	-	-	50,007,677	30,579,033
Undrawn facilities as at the reporting date were as follows:					
Bank overdraft	14,000,000	2,279,299	20,000,000	919,612	-

9. **Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 5%, 15% ad 30%. The movement on the deferred tax account is as follows:

The movement on the deferred tax account is as follows:	**2023 Shs**	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
At start of year - as previously stated	(533,953)	7,249,997	7,332,398	(9,035)	(755)
Prior year restatements (Note 21)	-	(7,249,997)	(7,332,398)	-	-
At start of year - as restated	(533,953)	-	-	(9,035)	(755)
Charge/(credit) to surplus or deficit (Note 7)	(5,060,744)	(533,953)	-	9,035	(8,280)
At end of year	(5,594,698)	(533,953)	-	-	(9,035)

Deferred tax (assets)/liabilities in the statement of financial position, deferred tax charge to other comprehensive income and deferred tax charge to profit or loss are attributable to the following items:

Period ended 30 June 2023	**At start of period Shs**	**(Credit)/charge to other comprehensive income Shs**	**Charge to surplus or deficit Shs**	**At end of period Shs**
Deferred tax liabilities				
Property and equipment				
- cost	(136,060)	-	1,270,468	1,134,408
Right of use assets	-	-	15,746,274	15,746,274
	(136,060)	-	17,016,742	16,880,682
Deferred tax (assets)				
Lease liabilities	-	-	(18,421,748)	(18,421,748)
Provision for bank balances	-	-	(566,419)	(566,419)
Provision for doubtful debts	(397,893)	-	(3,089,319)	(3,487,212)
	(397,893)	-	(22,077,486)	(22,475,379)
	(533,953)	-	(5,060,744)	(5,594,697)

Year ended 31 December 2022	**At start of year as previously stated Shs**	**Prior restatement (Note 21) Shs**	**At start of year as restated Shs**	**(Credit)/charge to other comprehensive income Shs**	**Charge to surplus or deficit Shs**	**At end of year Shs**
Deferred tax asset						
Property and equipment						
- cost	-	-	-	-	(136,060)	(136,060)
- revaluation	7,249,997	(7,249,997)	-	-	-	-
Provision for doubtful debts	-	-	-	-	(397,893)	(397,893)
	7,249,997	(7,249,997)	-	-	(533,953)	(533,953)
Year ended 31 December 2021						
Deferred tax liabilities						
Property and equipment - revalued	7,332,398	(7,332,398)	-	-	-	-
Year ended 31 December 2020						
Deferred tax (assets)/liabilities						
Property and equipment						
- cost	(9,035)	-	(9,035)	-	9,035	-
Year ended 31 December 2019						
Deferred tax (assets)						
Property and equipment - cost	(755)	(755)		-	(8,280)	(9,035)

NOTES (CONTINUED)

10. **Property and equipment**

Period ended 30 June 2023	**Leasehold improvements Shs**	**Buildings Shs**	**Motor vehicles Shs**	**Furniture and fittings Shs**	**Office equipment Shs**	**Total Shs**
Cost						
At start of period	46,612,753	123,630,224	162,303,423	19,148,289	51,732,058	403,426,747
Additions	2,078,376	-	529,000	858,481	1,163,417	4,629,274
Disposals	-	-	(210,100)	-	-	(210,100)
At end of period	48,691,129	123,630,224	162,622,323	20,006,770	52,895,475	407,845,921
Depreciation						
At start of period	35,323,745	43,877,004	132,151,914	15,410,264	41,368,551	268,131,478
Charge for the period	4,000,181	960,400	3,031,369	1,308,076	2,750,185	12,050,211
Disposals	-	-	(199,426)	-	-	(199,426)
At end of period	39,323,926	44,837,404	134,983,857	16,718,340	44,118,736	279,982,263
Net book value	9,367,203	78,792,820	27,638,466	3,288,430	8,776,739	127,863,658

Leasehold land and buildings have been pledged as security against borrowings as disclosed in Note 8.

NOTES (CONTINUED)

10. **Property and equipment (continued)**

Year ended 31 December 2022	**Leasehold improvements Shs**	**Buildings Shs**	**Motor vehicles Shs**	**Furniture and fittings Shs**	**Office equipment Shs**	**Total Shs**
Cost						
At start of year	42,877,234	100,000,000	165,216,523	17,485,816	48,009,729	373,589,302
Prior restatement (Note 21)						
- reversal of deficit on revaluation	-	23,630,224	-	-	-	23,630,224
At start of year - as restated	42,877,234	123,630,224	165,216,523	17,485,816	48,009,729	397,219,526
Additions	3,735,519	-	-	1,662,473	3,722,329	9,120,321
Disposals	-	-	(2,393,100)	-	-	(2,393,100)
Adjustments	-	-	(520,000)	-	-	(520,000)
At end of year	46,612,753	123,630,224	162,303,423	19,148,289	51,732,058	403,426,747
Depreciation						
At start of year	27,506,612	2,000,000	127,428,934	11,678,621	33,264,977	201,879,144
Prior restatement (Note 21)						
- change in depreciation estimate	-	-	-	1,300,178	2,861,454	4,161,632
- reversal of depreciation on revaluation	-	40,249,387	-	-	-	40,249,387
At start of year - as restated	27,506,612	42,249,387	127,428,934	12,978,799	36,126,431	246,290,163
Charge for the year	7,817,133	1,627,617	7,556,288	2,431,465	5,242,120	24,674,623
Disposals	-	-	(2,313,308)	-	-	(2,313,308)
Impairment	-	-	(520,000)	-	-	(520,000)
At end of year	35,323,745	43,877,004	132,151,914	15,410,264	41,368,551	268,131,478
Net book value	11,289,008	79,753,220	30,151,509	3,738,025	10,363,507	135,295,269

NOTES (CONTINUED)

10. **Property and equipment (continued)**

Year ended 31 December 2021	**Leasehold improvements Shs**	**Buildings Shs**	**Motor vehicles Shs**	**Furniture and fittings Shs**	**Office equipment Shs**	**Total Shs**
Cost						
At start of year - as previously stated	41,719,227	100,000,000	178,402,605	16,512,549	42,728,196	379,362,577
Prior restatement (Note 21)						
- reversal of deficit on revaluation	-	23,630,224	-	-	-	23,630,224
At start of year - as restated	41,719,227	123,630,224	178,402,605	16,512,549	42,728,196	402,992,801
Additions	1,204,495	-	946,652	1,260,525	5,281,533	8,693,205
Disposals	-	-	(14,132,734)	-	-	(14,132,734)
Adjustments	(46,488)	-	-	(287,258)	-	(333,746)
At end of year	42,877,234	123,630,224	165,216,523	17,485,816	48,009,729	397,219,526
Depreciation						
At start of year - as previously stated	20,610,250	-	131,828,007	10,238,226	30,548,810	193,225,293
Prior restatement (Note 21)						
- change in depreciation estimate	-	-	-	628,613	1,054,398	1,683,011
- reversal of depreciation on revaluation	-	40,588,554	-	-	-	40,588,554
At start of year - as restated	20,610,250	40,588,554	131,828,007	10,866,839	31,603,208	235,496,858
Charge for the year	6,896,362	1,660,833	9,345,790	2,111,960	4,523,223	24,538,168
Disposals	-	-	(13,744,862)	-	-	(13,744,862)
At end of year	27,506,612	42,249,387	127,428,934	12,978,799	36,126,431	246,290,164
Net book value	15,370,622	81,380,837	37,787,589	4,507,017	11,883,298	150,929,362

NOTES (CONTINUED)

10. **Property and equipment (continued)**

Year ended 31 December 2020	**Leasehold improvements Shs**	**Buildings Shs**	**Motor vehicles Shs**	**Furniture and fittings Shs**	**Office equipment Shs**	**Total Shs**
Cost						
At start of year	36,606,339	123,630,224	143,372,722	15,938,827	42,090,107	361,638,219
Additions	5,112,888	-	36,830,011	573,722	638,089	43,154,710
Disposals	-	-	(1,800,128)	-	-	(1,800,128)
At end of year	41,719,227	123,630,224	178,402,605	16,512,549	42,728,196	402,992,801
Depreciation						
At start of year - as previously stated	13,771,823	38,893,822	124,248,258	8,683,741	27,666,870	213,264,514
Prior year adjustment (Note 21)						
- change in depreciation estimate	-	-	-	313,422	421,839	735,261
At start of year - as restated	13,771,823	38,893,822	124,248,258	8,997,163	28,088,709	213,999,775
Charge for the year	6,838,427	1,694,732	9,341,773	1,869,676	3,514,499	23,259,107
Disposals	-	-	(1,762,024)	-	-	(1,762,024)
At end of year	20,610,250	40,588,554	131,828,007	10,866,839	31,603,208	235,496,858
Net book value	21,108,977	83,041,670	46,574,598	5,645,710	11,124,988	167,495,943

10. **Property and equipment (continued)**

Year ended 31 December 2019

	Leasehold land Shs	Leasehold improvements Shs	Buildings Shs	Motor vehicles Shs	Furniture and fittings Shs	Office equipment Shs	Work in progress Shs	Total Shs
Cost								
At start of year	422,350	21,491,416	123,630,224	158,620,492	13,416,369	36,995,790	1,199,530	355,776,171
Additions	-	13,915,393	-	7,612,218	2,522,458	5,094,317	-	29,144,386
Transfer from work in progress	-	1,199,530	-	-	-	-	(1,199,530)	-
Transfer to right-of-use assets (Note 12)	(422,350)	-	-	-	-	-	-	(422,350)
Disposal	-	-	-	(22,859,988)	-	-	-	(22,859,988)
At end of year	-	36,606,339	123,630,224	143,372,722	15,938,827	42,090,107	-	361,638,219
Depreciation								
At start of year	103,451	7,185,366	37,164,508	142,136,663	7,320,264	24,604,515	-	218,514,767
Disposal	-	-	-	(21,621,487)	-	-	-	(21,621,487)
Transfer to right-of-use assets (Note 12)	(107,717)	-	-	-	-	-	-	(107,717)
Charge for the year	4,266	6,586,457	1,729,314	3,733,082	1,676,899	3,484,194	-	17,214,212
At end of year	-	13,771,823	38,893,822	124,248,258	8,997,163	28,088,709	-	213,999,775
Net book value	-	22,834,516	84,736,402	19,124,464	6,941,664	14,001,398	-	147,638,444

NOTES (CONTINUED)

11. **Intangible assets**

	2023 Shs	2022 Shs	2021 Shs	2020 Shs	2019 Shs
Cost					
At start of year	15,928,095	15,302,970	13,617,070	13,617,070	2,900,463
Additions	-	625,125	1,685,900	-	10,716,607
At end of year	15,928,095	15,928,095	15,302,970	13,617,070	13,617,070
Amortisation					
At start of year	12,003,340	9,323,145	6,307,976	3,629,783	951,299
Charge for the year	1,198,394	2,680,195	3,015,169	2,678,193	2,678,484
At end of year	13,201,734	12,003,340	9,323,145	6,307,976	3,629,783
Net book value	2,726,361	3,924,755	5,979,825	7,309,094	9,987,287

12. **Right-of use assets**

Period ended 30 June 2023	Leasehold land Shs	Lease of vehicles Shs	Lease of office spaces Shs	Total Shs
Cost				
At start and end of period	3,753,001	132,515,184	141,593,090	277,861,275
Depreciation				
At start of period	300,551	93,807,160	100,800,610	194,908,320
Depreciation charge for the period	49,275	15,466,121	14,697,420	30,212,817
At end of period	349,825	109,273,281	115,498,030	225,121,137
Carrying value	3,403,176	23,241,902	26,095,060	52,740,138
Year ended 31 December 2022				
Cost				
At start of year - as previously stated	133,330,651	132,515,184	136,830,972	402,676,807
Prior year restatement (Note 21)				
- reversal of surplus on revaluation	(129,577,650)	-	-	(129,577,650)
At start of year - as restated	3,753,001	132,515,184	136,830,972	273,099,157
Additions during the year	-	-	4,762,118	4,762,118
At end of year	3,753,001	132,515,184	141,593,090	277,861,275
Depreciation				
At start of year	251,276	64,039,740	71,260,074	135,551,089
Depreciation charge for the year	49,275	29,767,420	29,540,536	59,357,231
At end of year	300,551	93,807,160	100,800,610	194,908,320
Carrying value	3,452,451	38,708,024	40,792,480	82,952,955

NOTES (CONTINUED)

12. **Right-of use assets (continued)**

Year ended 31 December 2021	**Leasehold land Shs**	**Lease of vehicles Shs**	**Lease of office spaces Shs**	**Total Shs**
Cost				
At start of year - as previously stated	133,330,651	104,990,457	124,169,104	362,490,212
Prior year restatement (Note 21)				
- reversal of surplus on revaluation	(129,577,650)	-	-	(129,577,650)
At start of year - as restated	3,753,001	104,990,457	124,169,104	232,912,562
Additions during the year	-	27,524,727	12,661,868	40,186,595
At end of year	3,753,001	132,515,184	136,830,972	273,099,157
Depreciation				
At start of year	202,001	36,236,281	43,314,551	79,752,833
Depreciation charge for the year	49,275	27,803,459	27,945,523	55,798,256
At end of year	251,276	64,039,740	71,260,074	135,551,089
Carrying value	3,501,726	68,475,444	65,570,898	137,548,068
Year ended 31 December 2020				
Cost				
At start of year	3,753,001	104,990,457	113,343,788	222,087,246
Additions during the year	-	-	10,825,316	10,825,316
At end of year	3,753,001	104,990,457	124,169,104	232,912,562
Depreciation				
At start of year	152,726	14,984,238	18,218,672	33,355,636
Depreciation charge for the year	49,275	21,252,043	25,095,879	46,397,197
At end of year	202,001	36,236,281	43,314,551	79,752,833
Carrying value	3,551,000	68,754,176	80,854,553	153,159,729
Year ended 31 December 2019				
Cost				
At start of year	-	-	-	-
Transferred from property and equipment (Note 10)	422,350	-	-	422,350
On adoption of IFRS 16	3,330,651	30,281,094	74,163,643	107,775,388
Additions during the year	-	74,709,363	39,180,145	113,889,508
At end of year	3,753,001	104,990,457	113,343,788	222,087,246
Depreciation				
At start of year	-	-	-	-
Transferred from property and equipment (Note 10)	103,451	-	-	103,451
Depreciation charge for the year	49,275	14,984,238	18,218,672	33,252,185
At end of year	152,726	14,984,238	18,218,672	33,355,636
Carrying value	3,600,275	90,006,219	95,125,116	188,731,610

The group leases land, office space and motor vehicles. The leases are typically for period of 3 to 5 years, with options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

NOTES (CONTINUED)

13. **Inventories**	**2023 Shs**	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
AA manuals	1,746,356	1,306,543	1,372,447	179,910	375,257
Stocks carnets	78,394	334,742	334,742	334,742	630,103
International driving permits	439,731	751,601	598,092	191,851	505,810
Triton kits	425,358	1,136,385	2,158,530	2,849,982	3,250,275
Fuel sensors	843,351	1,178,936	569,620	915,468	1,116,834
	3,533,190	4,708,207	5,033,431	4,471,953	5,878,279

14. **Trade and other receivables**					
Trade receivables	87,844,004	83,305,955	74,339,931	81,626,560	95,682,207
Less: expected credit losses	(11,624,040)	(12,647,409)	(18,748,854)	(21,100,330)	(18,184,597)
Net trade receivables	76,219,964	70,658,546	55,591,077	60,526,230	77,497,610
Prepayments	30,827,518	15,768,604	7,114,975	7,287,685	12,084,135
Deposits	19,197,310	18,152,170	16,880,705	15,802,928	16,240,146
Other receivables	145,078	256,587	-	3,143,966	2,981,309
	126,389,870	104,835,907	79,586,757	86,760,809	108,803,200
Movement in expected credit losses					
At start of year as previously stated	13,886,414	19,987,860	22,339,336	19,423,603	11,093,068
Prior year restatement					
Expected credit losses	39,395,187	39,395,187	39,395,187	39,395,187	39,395,187
Reversal of 2018 write offs	(40,634,193)	(40,634,193)	(40,634,193)	(40,634,193)	(40,634,193)
At start of year as restated	12,647,409	18,748,854	21,100,330	18,184,597	9,854,062
(Decrease)/increase (Note 4(a))	(1,023,369)	(6,101,445)	2,180,874	8,589,444	14,577,318
Recoveries (Note 3)	-	-	(4,313,040)	(4,077,712)	(6,246,783)
Write off's	-	-	(219,310)	(1,595,999)	-
At end of year	11,624,040	12,647,409	18,748,854	21,100,330	18,184,597

The carrying amounts of the group's trade and other receivables are denominated in Kenya Shillings.

15. **Cash and cash equivalents**	**2023 Shs**	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
Cash at bank and in hand	22,110,839	6,283,107	10,274,627	2,886,452	7,535,988
Short term bank deposits	3,000,000	3,000,000	3,000,000	3,000,000	4,000,000
Provision for expected credit losses	(1,888,063)	(152,022)	(139,080)	(107,161)	(153,818)
	23,222,776	9,131,085	13,135,547	5,779,291	11,382,170
Movement in provisions for credit losses					
At start of year as previously stated	-	-	-	-	-
Prior year restatement					
Expected credit losses	152,022	139,080	107,161	153,818	257,343
At start of year as restated	152,022	139,080	107,161	153,818	257,343
Increase/(decrease) (Note 4(a))	1,736,041	12,942	31,918	(46,656)	(103,525)
At end of year	1,888,063	152,022	139,080	107,161	153,818

NOTES (CONTINUED)

15. **Cash and cash equivalents (continued)**

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

	2023 Shs	2022 Shs	2021 Shs	2020 Shs	2019 Shs
Cash and bank balances	25,110,839	9,131,085	13,135,547	5,779,291	11,382,170
Bank overdraft (Note 8)	(11,720,701)	(11,720,701)	-	(19,080,388)	(20,559,042)
Less: Short term bank deposits held under lien (restricted cash balances)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(4,000,000)
	10,390,138	(5,589,616)	10,135,547	(16,301,097)	(13,176,872)

The carrying amounts of the group's cash and cash equivalents are denominated in Kenya Shillings.

16. **Trade and other payables**	2023 Shs	2022 Shs	2021 Shs	2020 Shs	2019 Shs
Trade payables	25,880,236	31,178,802	27,904,176	42,060,392	56,279,562
Accruals	12,904,631	4,232,636	21,892,572	14,583,781	24,996,905
Provision for leave	-	-	-	-	1,566,217
Other payables	25,254,612	25,625,118	1,553,355	675,659	2,194,928
Staff bonus accrual	-	-	-	-	14,579,399
VAT principle tax	-	-	18,510,087	14,872,607	11,277,672
Carnet member fund	3,880,033	5,220,033	3,350,033	4,653,691	5,233,691
	67,919,512	66,256,590	73,210,223	76,846,131	116,128,374

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

The carrying amounts of the group's trade and other payables are denominated in Kenya Shilling.

The maturity analysis of the group's trade and other payables is as follows:

Period ended 30 June 2023	0 to 1 month Shs	2 to 3 months Shs	4 to 12 months Shs	Total Shs
Trade payables	10,757,855	1,549,651	13,572,729	25,880,236
Accruals	12,904,631	-	-	12,904,631
Other payables	25,254,612	-	-	25,254,612
Carnet member fund	330,000	-	3,550,033	3,880,033
	49,247,098	1,549,651	17,122,762	67,919,512
Year ended 31 December 2022				
Trade payables	15,742,003	9,679,834	5,756,965	31,178,802
Accruals	4,232,636	-	-	4,232,636
Other payables	25,625,118	-	-	25,625,118
Carnet member fund	-	200,000	5,020,033	5,220,033
	45,599,758	9,879,834	10,776,998	66,256,590

NOTES (CONTINUED)

16. **Trade and other payables (continued)**	**0 to 1 month Shs**	**2 to 3 months Shs**	**4 to 12 months Shs**	**Total Shs**
Year ended 31 December 2021				
Trade payables	10,308,506	10,965,910	6,629,760	27,904,176
Accruals	21,892,572	-	-	21,892,572
Other payables	1,553,355	-	-	1,553,355
VAT principle tax	-	-	18,510,087	18,510,087
Carnet member fund	-	-	3,350,033	3,350,033
	33,754,432	10,965,910	28,489,880	73,210,223
Year ended 31 December 2020				
Trade payables	10,951,692	1,662,606	29,446,093	42,060,392
Accruals	14,583,781	-	-	14,583,781
Other payables	675,659	-	-	675,659
VAT principle tax	-	-	14,872,607	14,872,607
Carnet member fund	-	-	4,653,692	4,653,692
	26,211,132	1,662,606	48,972,393	76,846,131
Year ended 31 December 2019				
Trade payables	5,684,060	(2,070,274)	52,665,776	56,279,562
Accruals	24,996,905	-	-	24,996,905
Provision for leave	-	-	1,566,217	1,566,217
Other payables	2,194,928	-	-	2,194,928
Staff bonus accrual	14,579,399	-	-	14,579,399
VAT principle tax	-	-	11,277,672	11,277,672
Carnet member fund	-	-	5,233,691	5,233,691
	47,455,292	(2,070,274)	70,743,356	116,128,374

17. **Contract liabilities**	**2023 Shs**	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
At start and end of the year	31,868,854	32,437,191	38,758,045	39,905,389	39,315,793

Contract liabilities relate to receipts from members where the service has not been provided.

18. **Lease liabilities**	**2023 Shs**	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
Non-current	39,591,638	66,604,002	63,498,344	46,124,728	38,656,672
Current	21,814,237	31,744,305	93,953,378	124,662,372	160,937,894
	61,405,826	98,348,307	157,451,722	170,787,099	199,594,566

The total cash outflow for leases in the year was:

Payments of principal portion of the lease liability	36,942,481	60,133,137	52,110,007	38,937,652	25,165,483
Interest paid on lease liabilities	5,235,222	16,503,291	22,158,262	24,020,416	20,241,220
	42,177,703	76,636,427	74,268,269	62,958,068	45,406,703

NOTES (CONTINUED)

18. **Lease liabilities (continued)**

	2023 Shs	2022 Shs	2021 Shs	2020 Shs	2019 Shs
Reconciliation of lease liabilities arising from financing activities:					
At start of year	98,348,307	157,451,722	170,787,099	199,594,566	-
Effect of change in accounting policy (Note 21)	-	-	-	-	110,873,838
Additions	-	4,762,118	40,186,595	10,825,316	113,889,508
Interest charged to profit or loss (Note 6)	5,235,222	16,503,291	22,158,262	24,020,416	20,241,220
Cash flows:					
- Payments under leases	(42,177,703)	(80,368,824)	(75,680,234)	(63,653,198)	(45,410,001)
At end of year	61,405,826	98,348,307	157,451,722	170,787,099	199,594,566

Lease liabilities are unsecured.

The leases expiring within one year are subject to review at various dates during the next financial year. The exposure of the group's leases to interest rate changes and the contractual repricing dates at the reporting date are as follows:

	2023 Shs	2022 Shs	2021 Shs	2020 Shs	2019 Shs
6 months or less	17,714,025	34,192,557	28,911,484	21,590,744	18,248,970
6 - 12 months	21,877,613	32,411,445	34,586,861	24,533,984	20,407,702
1 - 5 years	15,513,499	28,587,618	90,762,444	121,437,557	157,679,562
Over 5 years	6,300,738	3,156,687	3,190,934	3,224,815	3,258,332
	61,405,875	98,348,307	157,451,722	170,787,099	199,594,566

	2023 %	2022 %	2021 %	2020 %	2019 %
Weighted average effective interest rates at the reporting date was:	9%	17%	14%	13%	13%

The carrying amounts of the group's lease liabilities are denominated in Kenya Shillings.

For more information on the nature of the leases entered into and the related right-of-use assets, see note 13.

19. **Retirement benefit obligations**

The company operates a gratuity scheme for qualifying employees which qualifies as a defined benefit scheme. Under the plan, the employees are entitled to either 25% of the basic annual salary for each successfully completed year of service.

	2023 Shs	2022 Shs	2021 Shs	2020 Shs	2019 Shs
Present value of funded obligations	2,280,960	-	19,008,000	15,840,000	12,672,000
At the start of the year	-	19,008,000	15,840,000	12,672,000	9,504,000
Utilised during the year	-	(22,809,600)	-	-	-
Charged to profit or loss	2,280,960	3,801,600	3,168,000	3,168,000	3,168,000
Liability in the statement of financial position	2,280,960	-	19,008,000	15,840,000	12,672,000

In the opinion of the directors, the carrying amount of gratuity approximate to its fair value.

The amounts recognised in profit or loss for the year were as follows:

	2023 Shs	2022 Shs	2021 Shs	2020 Shs	2019 Shs
Current service cost (included in staff cost)	2,280,960	3,801,600	3,168,000	3,168,000	3,168,000
Discount rate	13%	13%	13%	13%	13%
Future salary increases	10%	10%	10%	10%	10%
Average number of contracted years	5	5	5	5	5

NOTES (CONTINUED)

20. **Related party transactions and balances**

The following transactions were carried out with related parties:

Key management compensation	**2023 Shs**	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
Governing council	13,054,298	24,874,502	18,569,938	6,362,111	27,415,780
Directors	499,998	1,200,000	450,000	-	-
Key management	24,753,799	45,794,528	37,975,935	38,169,270	38,719,270
	38,308,095	71,869,030	56,995,873	44,531,381	67,035,050

21. **Prior year and transition adjustments**

The comparative amounts relating to all the years have been restated to reflect the following.

a) **Prior year restatements**	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
Provision for long-term service dues (Note i)	(9,504,000)	(9,504,000)	(9,504,000)	(9,504,000)
Reversal of surplus on revaluation (Note ii)	137,718,379	139,315,565	-	-
Change in depreciation estimate (Note iii)	1,980,416	(344,978)	(735,261)	-
Tax liabilities (Note (iv)	(6,865,186)	(6,865,186)	(6,865,186)	(6,865,186)
	123,329,608	122,601,400	(17,104,448)	(16,369,186)
b) **IFRS transition adjustments**				
Changes on initial application of IFRS 9 (Note v)	940,932	883,878	951,947	982,142
Changes on initial application of IFRS 16 (Note vi)	(618,615)	(2,282,480)	(2,977,669)	(3,098,450)
	322,318	(1,398,602)	(2,025,721)	(2,116,307)

i. This relates to provisions for long-term service dues that were retorspectively provided for in the audited financial statements for the year ended 31 December 2022.
ii. The board has resolved to revert to the cost method of accounting for property and equipment and right of use assets on transition to IFRS. Previpously the assets in question were revalued during the year ended 31 December 2020.
iii. The board has reconsidered the useful life of its property and equipment assets and resolved to depreciate the same using the straight line method compared to the reducing balance method previously adopted.
iv. This related to tax liabilities arsing from recent revenue authority audits.
v. This relates to the transition impact of IFRS 9 principally related to recognition of expected credit losses on financial assets accounted for on amortised cost.
vi. This relates to the transition impact of IFRS 16 relating to recognition of lease liabilities and the related right of use assets

22. **Risk management objectives and policies**

Financial risk management

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

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

Risk management is carried out by the management under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and investment of excess liquidity.

(a) Market risk

- Interest rate risk

The group has no interest bearing assets and as a result its cash flows are substantially independent of changes in market interest rates.

NOTES (CONTINUED)

22. **Risk management objectives and policies (continued)**

(b) Credit risk (continued)

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

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

In assessing whether the credit risk on a financial asset has increased significantly, the group compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the group considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For this purpose, default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

If the group does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the groups financial assets on the basis of shared credit risk characteristics, such as:

- type of instrument;
- industry in which the debtor operates; and
- nature of collateral.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the following events:

- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

The gross carrying amount of financial assets with exposure to credit risk at the reporting date was as follows:

Basis for measurement of loss allowance			**Lifetime expected credit losses**		
	2023	**2022**	**2021**	**2020**	**2019**
	Shs	**Shs**	**Shs**	**Shs**	**Shs**
Trade receivables	87,844,004	83,305,955	74,339,931	81,626,560	95,682,207
Other receivables	50,169,906	34,177,361	23,995,680	26,234,579	31,305,590
Cash at bank	25,110,839	9,283,107	13,274,627	5,886,452	11,535,988
Gross carrying amount	163,124,750	126,766,423	111,610,238	113,747,591	138,523,785
Loss allowance	(13,512,103)	(12,799,431)	(18,887,934)	(21,207,491)	(18,338,415)
Exposure to credit risk	176,636,852	139,565,854	130,498,172	134,955,082	156,862,200

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

a) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;
b) financial assets that are credit impaired at the reporting date;
c) trade receivables, contract assets and lease receivables for which the loss allowance is always measured at an amount equal to lifetime expected credit losses, based, as a practical expedient, on provision matrices.

NOTES (CONTINUED)

22. **Risk management objectives and policies (continued)**

Financial risk management (continued)

(b) Credit risk (continued)

The age analysis of the trade receivables at the end of each year was as follows:

	Not past due Shs	1 to 30 days past Shs	31 to 60 days past Shs	Over 60 days past Shs	Total Shs
As at 30 June 2023	8,191,663	26,245,324	25,737,027	27,669,991	87,844,004
As at 31 December 2022	7,984,925	31,786,574	16,315,354	27,219,102	83,305,955
As at 31 December 2021	13,598,714	22,570,443	12,241,308	25,929,466	74,339,931
As at 31 December 2020	19,518,797	37,222,948	12,195,592	12,689,223	81,626,560
As at 31 December 2019	10,944,036	20,201,357	12,035,538	52,501,276	95,682,207

The changes in the loss allowance during the year were as follows:

Basis for measurement of loss allowance	Lifetime expected credit losses				
	2023 Shs	**2022 Shs**	**2021 Shs**	**2020 Shs**	**2019 Shs**
At start of year	12,799,431	18,887,934	21,207,492	18,338,415	10,111,405
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	712,671	(6,088,503)	2,212,792	8,542,788	14,473,793
Changes because of financial assets that were written off during the year	-	-	(4,532,350)	(5,673,711)	(6,246,783)
At end of year	13,512,103	12,799,431	18,887,934	21,207,491	18,338,415
The loss allowances at the end of each year relate to the following;					
Trade receivables (all related to contracts with customers)	11,624,040	12,647,409	18,748,854	21,100,330	18,184,597
Cash at bank	1,888,063	152,022	139,080	107,161	153,818
At end of year	13,512,103	12,799,431	18,887,934	21,207,491	18,338,415

The group does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due receivables.

(c) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting obligations associated with financial liabilities. Cash flows forecasting is performed by the finance department of the group by monitoring the group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

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 group's management maintains flexibility in funding by maintaining availability under committed credit lines.

A disclosure of the undrawn facilities is as per Note 8. This is the group's liquidity reserve.

Notes 8 and 16 disclose the maturity analysis of borrowings and trade and other payables.

The tables below disclose the undiscounted maturity profile of the group's financial liabilities:

NOTES (CONTINUED)

22. **Risk management objectives and policies (continued)**

(c) Liquidity risk (continued)	**Interest rate %**	**Between 1 - 12 months Shs**	**Between 1 - 5 year Shs**	**More than 5 years Shs**	**Total Shs**
Period ended 30 June 2023					
Interest bearing liabilities					
- Borrowings	13%	33,691,207	-	-	33,691,207
- Lease liabilities	13%	39,591,638	15,513,499	6,300,738	61,405,875
Non-interest bearing liabilities					
- Trade and other payables		67,919,512	-	-	67,919,512
		141,202,357	15,513,499	6,300,738	163,016,594
Year ended 31 December 2022					
Interest bearing liabilities					
- Borrowings	13%	45,139,076	-	-	45,139,076
- Lease liabilities	13%	66,604,002	28,587,618	3,156,687	98,348,307
Non-interest bearing liabilities					
- Trade and other payables		66,256,590	-	-	66,256,590
		177,999,668	28,587,618	3,156,687	209,743,973
Year ended 31 December 2021					
Interest bearing liabilities					
- Borrowings	13%	51,625,560	-	-	51,625,560
- Lease liabilities	13%	63,498,344	90,762,444	3,190,934	157,451,722
Non-interest bearing liabilities					
- Trade and other payables		73,210,223	-	-	73,210,223
		188,334,127	90,762,444	3,190,934	282,287,506
Year ended 31 December 2020					
Interest bearing liabilities					
- Borrowings	13%	36,695,649	50,007,677	-	86,703,326
- Lease liabilities	13%	46,124,728	121,437,557	3,224,815	170,787,099
Non-interest bearing liabilities					
- Trade and other payables		76,846,131	-	-	76,846,131
		159,666,508	171,445,234	3,224,815	334,336,557
Year ended 31 December 2019					
Interest bearing liabilities					
- Borrowings	13%	29,128,061	30,579,033	-	59,707,094
- Lease liabilities	13%	38,656,672	157,679,562	3,258,332	199,594,566
Non-interest bearing liabilities					
- Trade and other payables		116,128,374	-	-	116,128,374
		183,913,106	188,258,595	3,258,332	375,430,033

23. **Capital management**

Internally imposed capital requirements

The group's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk;
- to comply with the capital requirements set out by the group'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; and
- to maintain a strong asset base to support the development of business.
- to maintain an optimal capital structure to reduce the cost of capital.

NOTES (CONTINUED)

23. **Capital management (continued)**

The group sets the amount of capital in proportion to risk. The group 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 group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistently with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided 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 (i.e. share capital, share premium, other reserves, retained earnings, and revaluation surplus).

Externally imposed capital requirements

The gearing ratios at 31 December 2019, 2020, 2021 and 2022 and for the period ended 30 June 2023 were as follows:

	2023 **Shs**	**2022** **Shs**	**2021** **Shs**	**2020** **Shs**	**2019** **Shs**
Total borrowings (Note 8)	33,691,207	45,139,076	51,625,560	86,703,326	59,707,094
Lease liabilities (Note 18)	61,405,826	98,348,307	157,451,722	170,787,099	199,594,566
Less: cash and cash equivalents (Note 15)	(23,222,776)	(9,131,085)	(13,135,547)	(5,779,291)	(11,382,170)
Net debt	84,628,602	107,479,392	170,587,269	176,566,390	210,976,736
Total equity	153,907,556	117,533,924	68,415,905	49,239,385	55,682,560
Gearing ratio	55%	91%	249%	359%	379%

24. **Contingent liabilities**

The Automobile Association of Kenya is a defendant in various legal cases. After seeking appropriate advice, the Governing Council is of the opinion that the outcome will not give rise to any material loss.

During the year, Kenya Revenue Authority (KRA) issued a notice of assessment challenging the application Section 21 (1) of the income Tax Act which gives guidance on taxation of members clubs. KRA is challenging the treatment of driving school students as qualifying members and seeks to tax this income and has issued an assessment of Shs. 27 million relating to the financial years 2016 to 2020 inclusive of penalties and interest. The association has lodged an appeal at the tax tribunal requesting that the above assessment be set aside. The association is of the view that based onits interpretation of the Income Tax Act and advise from its tax advisors, the association has meritorius defence and no material liability will arise. Should the appeal not be upheld, the estimated additional taxes for the financial years 2021 and 2022 are estimated at Shs. 18 million inclusive of penalties and interest.

25. **Incorporation**

AA Kenya Plc is incorporated in Kenya under the Companies Act as a public limited liability company and is domiciled in Kenya.

26. **Presentation currency**

The financial statements are presented in Kenya Shillings (Shs).