Real People Kenya Limited

(Registration number C. 3/2015)

Financial statements

for the year ended 31 March 2017

General information

Country of incorporation and domicile	Kenya
Nature of business and principal activities	Provision of credit to small business owners
Company registration number	C. 3/2015
Registered office	L.R. No 209/6871 International Life House Mama Ngina Street Nairobi
Postal address	PO Box 27153-00100 Nairobi
Auditors	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 40092-00100 GPO Nairobi
Secretary	Cornelius Kimamo Kigera PO Box 10643-00100, Nairobi
Holding company	Real People Holdings International Limited incorporated in Mauritius
Ultimate holding company	Real People Investment Holdings Limited incorporated in South Africa

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Audit Committee Report

This report is provided by the audit committee appointed in respect of the 2017 financial year of Real People Kenya Limited. The audit committee is a sub-committee of the board of directors of the company. The report includes both these set of duties and responsibilities.

1. External auditor

The committee satisfied itself through enquiry that the external auditors are independent as defined by the Kenyan Companies Act and as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided in compliance with the requirements of the Kenyan Companies Act that internal governance processes within the firm support and demonstrate the claim to independence.

The Audit Committee (AC) in consultation with executive management, agreed to the terms of the engagement. The audit fee for the external audit has been considered and approved taking into consideration such factors as the timing of the audit, the extent of the work required and the scope.

2. Accounting practices and internal control

The AC is responsible for reviewing the effectiveness of systems for internal control, financial reporting and risk management, and considering the major findings of any internal investigations into control weaknesses, fraud or misconduct, and management's response thereto.

The AC receives regular reports provided as part the planned internal audit (IA) program to assist in evaluating the Company's internal controls. The IA places emphasis on accountability, responsibility, independence, reporting, communication and transparency, both internally and in respect of all key external stakeholders. Significant areas of focus within the reports include the following:

identifying and managing material risks within the Company and changes to these risk profiles during the year;

- creating and maintaining an effective internal control environment throughout the Company;
- demonstrating the necessary respect for the control environment; and
- identifying and correcting weaknesses in systems and internal controls.

The audit committee receives regular reports on issues in the company's key issues control log from management and regular reports regarding governance and compliance matters. Where there are improvements required in internal controls, the Committee satisfied itself of the key actions required to effect the required improvements. Having considered, analysed, reviewed and debated information provided by management, IA and the external auditors, the Committee considered that the internal controls of the Company had been effective in all material aspects throughout the year under review.

3. Audit committee terms of reference

The AC has adopted its formal terms of reference that been approved by the board of directors. The audit committee has conducted its affairs in compliance with its terms of reference and has discharged its responsibilities contacted therein.

4. Audit committee members, meeting attendance and assessment

The AC is independent and must consist of at least a majority of independent non–executive directors. It must meet at least three times a year as per its terms of reference. The Chief Executive Officer will attend the meeting. The Chief Financial Officer (CFO), audit partner in charge of external audit and head of internal audit and other executives may attend the meeting by invitation and shall have unrestricted access to the Chairman and any other member of the committee as is required in relation to any matter that falls within the remit of the Committee.

The effectiveness of the audit committee and its members is assessed on an annual basis.

Audit Committee Report

5. Financial reporting process

The AC received regular reports from the acting CFO regarding the financial performance of the Company, the tracking and monitoring of key performance indicators, details of budgets, forecasts, long-term plans and capital expenditure, financial reporting controls and processes, and the adequacy and reliability of management information used during the financial reporting process.

The AC reviewed and approved the accounting policies of the Company as reported in the annual financial statements, monitoring the consistency of application and compliance with accounting standards. The AC also reviewed and approved the related Company policies. The AC further assessed and confirmed the appropriateness of the going-concern assumption used in the annual financial statements, taking into account management budgets, as well as the capital forecast and the liquidity profiles.

The AC also:

- received a summary of the key technical accounting matters from the acting CFO for consideration as well as a summary of critical accounting judgements and estimates made during the financial reporting process;
- received input where there have been substantive discussions between management and the external auditors; and
- discussed all key areas of judgement with management and the external auditors.

The AC noted that the finance team was under pressure with multiple demands on time and reporting which in 2017 included forecasting and dealing with a new auditor, as well as a reduction in the size of the team. The team remained committed to getting things right despite the difficult circumstances, acting with the highest level of integrity at all times. A new financial manager was added to the team, and an acting chief financial officer was made available.

The AC considered the following significant issues and key areas of management judgement applied in the preparation of the financial statements in the current year.

- Credit risk provisions – The AC reviewed and challenged reports from management regarding the level and appropriateness of impairments, provisioning methodologies and related key judgements in determining the impairment balances, and satisfied itself as to the level of impairments which were supported by a detailed review from Deloitte & Touche (DT) prior to the formalisation of their appointment as auditors.
- Taxation-related matters – The AC reviewed reports from management regarding the tax computation and, where applicable, the judgements made in determining tax accrual and the deferred tax balance, which were supported by expert advice where necessary. The taxation expense and related balances are disclosed in the notes to the financial statements. Amendments to prior year tax returns were actioned where necessary.

The external auditor has prepared for the changes in requirements to auditors' reporting of key audit matters in its report and has actively engaged with the AC. The report aims to provide information that allows users of the financial statements to understand how the external auditor has considered and evaluated the significant matters identified during the course of their audit. This is effective in the auditor's report on the 2017 financial statements.

6. Accounting estimates and impairments

The AC has taken into consideration that the Company has in the past disclosed deferred tax assets for which the considerations have always been whether or not there was the likelihood of taxable performance within the company within a space of 5 years at maximum. Recent performance has declined and this aspect has come into focus during the current year. A combination of a turnaround plan and strong intervention that included temporary top management strengthening after year-end, has provided plans with a likelihood of a return to taxable profitability within the medium to long term period.

Audit Committee Report

In addition a deep-level review of prior year tax returns has indicated that the Company has overpaid corporate tax from F2014 to F2016 in respect of claims for unrecoverable receivables from clients. This amount has been investigated not only as to its veracity but also its recoverability from the revenue authority in cash. The AC is convinced that this is achievable within the short term, and supports the treatment of the amount of overpaid tax as a current asset in note 14.

7. The consideration of going concern as an underlying assumption

Given the underperformance of the Company over a number of years, questions have been raised as to whether the underlying assumption of its ability to sustain itself, is appropriate. Plans are in place to take strong action to ensure such sustainability. Although these are in an early stage at the date of finalising these financial statements, the AC is of the view that the assumptions are reasonable, and management capacity is adequate to effect the necessary operational changes. In addition, the involvement of external advisers is expected to have a materially positive impact. There remain a number of imponderables, but the necessary time and energy is being applied to ensure success in this regard. For that reason the AC is of the view that the assumption that the Company will be a going concern on the basis of these plans and that the plans are regarded to be achievable, remains appropriate. Further information on the assumptions in forming the director's opinion on the going concern can be found in note 24 to the consolidated annual financial statements.

8. Financial statements

The AC reviewed and discussed the audited annual financial statements with the acting CFO, the acting CEO, Internal Audit and the external auditor. The AC assessed, and found to be effective and appropriate, the financial reporting process and controls that led to the compilation of the annual financial statements as well as the presentation and disclosure in the annual financial statements with regard to the approved accounting policies, IFRS and the requirements of the Companies Act for fair presentation.

The AC recommended to the board that the annual financial statements be approved. The board subsequently approved the annual financial statements, which will be open for discussion at the forthcoming annual general meeting.

On behalf of the audit committee

Chairman Audit Committee

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other error.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. They also accept responsibility for:

- designing, implementing and maintaining such internal controls as they determine necessary to enable the presentation of financial statements that are free of material misstatement, whether due to fraud or error;
- selecting suitable accounting policies and applying them consistently; and
- making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Having made an assessment of the company's ability to continue as a going concern as set out in more detail within note 24, the directors are of the opinion, based on intended discussions with creditors and the possibility of increased funding wherein it will be assisted by external advisers, that the company will continue in operational existence for the foreseeable future.

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

Approved by the board of directors on 11 October 2017 and signed on its behalf by:

CH Kocks

YM Godo

Deloitte.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REAL PEOPLE KENYA LIMITED

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the accompanying financial statements of Real People Kenya Limited, set out on pages 7 to 34, which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.
We do not express an opinion on the financial statements of Real People Kenya Limited. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

Going concern assumption

We draw your attention to Note 23 to the financial statements, which indicates that the financial statements have been prepared on the assumption that the company will be able to continue as a going concern. During the year, the company incurred a net loss of Ksh 591,703,000 (2016 – net loss of Ksh 93,723,000) and, as at 31 March 2017, had accumulated losses amounting to Ksh 443,995,000 (2016 – accumulated surplus of Ksh 147,708,000). These conditions combined with the historical performance of the company indicate that a material uncertainty exists which may cast significant doubt on the company's ability to continue as a going concern.
The directors have prepared these financial statements on a going concern basis however, as disclosed in Note 23, the ability of the company to continue as a going concern is dependent on the assumption that the directors will continue to procure funding for the ongoing operations of the company.

We have not obtained sufficient appropriate audit evidence to support this assumption as it is premised on future events, the outcome of which are inherently uncertain. By the time of concluding the audit, we had not obtained sufficient appropriate evidence that adequate financing arrangements had been concluded that will reasonably guarantee the ongoing operations of the business to meet its future obligations as they fall due.

Consequently, we are unable to ascertain the appropriateness of the going concern assumption used in preparing these financial statements and, where applicable, to determine whether any adjustments might have been found necessary to the amounts recorded or unrecorded in the financial statements. If the company is unable to continue in operational existence for the foreseeable future, the company may not be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realized other than in the normal course of business and at amounts which they are currently recorded in the statement of financial position.

Current tax receivable

As disclosed in note 24 to the annual financial statements, the company recognised an anticipated tax refund of Ksh 177,135,000 that the directors believe is due from the Kenya Revenue Authority (KRA). The claim has not yet been filed and once filed, will be subjected to audit by the KRA.

In our opinion, it is premature to recognise this asset as there is significant judgement required in assessing the evidence that the Company is able to provide that all avenues in achieving payment of the loan have been exhausted and that the account is indeed a bad debt. The balance does not therefore meet the definition of an asset as it is dependent on the assessment by the KRA and the determination of this is not wholly within the control of the Company.

Partners: S. O. Onyango F. O. Aloo H. Gadhoke* N. R. Hira* B. W. Irungu I. Karim D. M. Mbogho A. N. Muraya R. Mwaura J. Nyang'aya F. Okwiri F. O. Omondi J. W. Wangai
*British

Key Audit Matters

Key audit matters are those that, in our professional judgment, were of most significance in our audit of the financial statements for the current period.

Because of the significance of the matters described in the Basis for Disclaimer of Opinion and the Disclaimer of Opinion section we have not reported on these.

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

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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

Report on Other Legal and Regulatory Requirements

As required by section 162 of the Kenyan Companies Act, and subject to the information described in the Basis of Disclaimer of Opinion paragraph, we report to you, based on our audit, that:

- we obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- proper books of account have been kept by the company, so far as appears from our examination of those books of account; and
- the company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is ***F Okwiri – P/No 1699.***

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

13 October **2017**

Report of the Directors

The directors present their report together with the audited financial statements of Real People Kenya Limited (The Company) for the year ended 31 March 2017 which discloses the status of affairs of the company. In accordance with Section 42 of the Sixth Schedule Transitional and Saving Provisions of the Kenyan Companies Act 2015, this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if that repeal had not taken effect.

1. Review of financial results and activities

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The accounting policies have been applied consistently compared to the prior year.

Financial results in Kenyan Shilling Thousands	*2017*	*2016*
Loss before taxation	(642,933)	(131,428)
Tax charge	51,230	37,705
Loss for the year transferred to retained earnings	**(591,703)**	**(93,723)**

The financial year ended on a disappointing note for the company as a result of a poor operating performance in Kenya. The company recorded a loss after tax of Ksh 592 million. The loss was attributable to a deteriorating operating environment resulting in higher impairments.

This resulted in capital reducing below the minimum covenant requirements after year end. The company's poor trading results and downward asset carrying value adjustments placed significant pressure on the company's earnings and capital levels. The company was accordingly unable to comply with its externally set covenant requirements after year end. The company has therefore engaged with debt and equity providers, with a view to alleviating the debt and interest burden borne by the company and placing the company on a path to sustainable profitability.

2. Matters of emphasis

Loan impairment provisions

The company has adjusted carrying values for various loan asset classes to current levels of collection performance. The full financial effects of the exercise resulted in carrying value adjustments for the company which are addressed in greater detail below.

The business increased the emergence period on performing loans from one to three months, and increased the loss identification period from three to twelve months. A poor operating environment has resulted in an increase in defaults, resulting in higher impairment charges during the year. This was further negatively affected by a recalibration of future expected receipts on the non-performing loan and written off portfolios to reflect current circumstances resulted in an overall negative adjustment of Ksh 79 million.

Deferred tax assets (DTA)

The recognition of additional deferred tax assets on taxable losses in the company has been suspended. The deferred tax assets in the current financial year have been impaired in full.

3. Audit opinion

The auditors have disclaimed their opinion based on going concern. The AC and the Board have applied their minds to the concept and have come to a different conclusion as per Section 7 of the Audit Committee Report.

4. Events after the reporting period

The capital covenants relating to the bonds have declined below the required levels from April 2017 and the necessary parties have been informed. Negotiations are planned with the current bondholders in order to rectify the issue.

The directors are not aware of any other material event which occurred after the reporting date and up to the date of this report.

5. Authorised and issued share capital

There have been no changes to the authorised or issued share capital during the year under review.

Report of the Directors

6. Dividends

The board of directors do not recommend the declaration of a dividend for the 2017 year (2016 - Nil).

7. Directors

The directors in office at the date of this report are as follows:

Directors	*Office*	*Designation*	*Nationality*	*Changes*
DOO Ohonde	Chief Executive Officer	Executive	Kenyan	Resigned 30 December 2016
N Grobbelaar	Group MD	Executive	South African	
YM Godo	Acting Chief Executive Officer	Executive	Kenyan	
N Ambunya	Finance Director	Executive	Kenyan	Resigned 28 November 2016
AKJ Ruturi	Director	Non-executive	Kenyan	Appointed 14 April 2016, resigned 03 July 2017
CH Kocks	Director	Non-executive	South African	
N Mule	Director	Non-executive	Kenyan	Resigned 03 July 2017
A Padachie	Other	Non-executive	South African	Appointed 22 June 2017
BH Pieters		Executive	South African	Appointed 01 August 2017

8. Secretary

The company secretary is Cornelius Kimamo Kigera.

Postal address: PO Box 10643-00100
Nairobi

9. Terms of appointment of the auditors

Deloitte & Touche were appointed as the company's auditors during the year in accordance with the company's Articles of Association and the provisions of the Kenyan Companies Act.

10. Shareholding

The ordinary shares in the company are held by Real People Holdings International Limited (99.9%) and Management (0.1%).

11. Going concern

Having made an assessment of the company's ability to continue as a going concern as set out in more detail within the audit committee report and note 24, the directors are of the opinion, based on intended discussions with creditors and the possibility of increased funding wherein it will be assisted by external advisers, that the company will continue in operational existence for the foreseeable future.

By Order of the Board

Cornelius Kimamo Kigera
Reg. No. 1787
CPS (K)
P. O. Box 10643 - 00100, NAIROBI

Secretary
Nairobi
11 October 2017

Statement of financial position as at 31 March 2017

Figures in Kenyan Shilling thousand	Note(s)	2017	2016
Assets			
Property and equipment	10	61,535	97,635
Intangible assets	11	45,487	50,325
Deferred tax asset	12	-	136,518
Trade and other receivables	13	55,004	111,020
Current tax receivable	14	251,217	63,403
Loans and advances to customers	15	944,897	2,085,081
Cash and cash equivalents	16	220,012	383,401
Total Assets		**1,578,152**	**2,927,383**
Equity and Liabilities			
Equity			
Share capital	18	750,000	750,000
Accumulated (loss)/surplus		(443,995)	147,708
Total Equity		**306,005**	**897,708**
Liabilities			
Other payables	19	17,962	26,171
Borrowings	20	1,254,185	2,003,504
Total Liabilities		**1,272,147**	**2,029,675**
Total Equity and Liabilities		**1,578,152**	**2,927,383**

Statement of profit or loss and other comprehensive income

Figures in Kenyan Shilling thousand	Note(s)	2017	2016
Revenue	2	1,122,993	1,132,720
Impairments on loans and advances	3	(929,972)	(510,145)
Other operating expenses	6	(565,251)	(457,211)
		(372,230)	**165,364**
Finance costs	5	(300,636)	(296,792)
Other non-operating gains (losses)	4	29,933	-
Loss before taxation		**(642,933)**	**(131,428)**
Tax (charge)/credit	9	51,230	37,705
Loss for the year		**(591,703)**	**(93,723)**
Total comprehensive loss for the year		**(591,703)**	**(93,723)**

Statement of changes in equity

Figures in Kenyan Shilling thousand	Share capital	Share premium	Total share capital	Accumulated (deficit)/surplus	Total equity
Balance at 01 April 2015	**250,000**	**500,000**	**750,000**	**241,431**	**991,431**
Total comprehensive loss for the year	-	-	-	(93,723)	(93,723)
Balance at 01 April 2016	**250,000**	**500,000**	**750,000**	**147,708**	**897,708**
Total comprehensive loss for the year	-	-	-	(591,703)	(591,703)
Balance at 31 March 2017	**250,000**	**500,000**	**750,000**	**(443,995)**	**306,005**
Note(s)	18	18	18		

Statement of cash flows

Figures in Kenyan Shilling thousand	Note(s)	2017	2016
Cash flows from operating activities			
Cash generated from/(used in) operations	21	556,342	(550,771)
Tax paid	17	(273,102)	(175,556)
Net cash flows generated from/(used in) operating activities		**283,240**	**(726,327)**
Cash flows from investing activities			
Purchase of property and equipment	10	(1,109)	(16,172)
Proceeds on sale of plant and equipment		5,836	(676)
Purchase of other intangible assets	11	(8,796)	(38,014)
Net cash flows used in investing activities		**(4,069)**	**(54,862)**
Cash flows from financing activities			
Proceeds from medium term note		-	1,551,660
Repayment of borrowings	20	(442,560)	(617,096)
Net cash flows (used in)/generated from financing activities		**(442,560)**	**934,564**
Total cash movement for the year		**(163,389)**	**153,375**
Cash and cash equivalents at the beginning of the year		383,401	230,026
Total cash and cash equivalents at end of the year	16	**220,012**	**383,401**

Accounting policies

Corporate information

Real People Kenya Limited is a public limited company incorporated and domiciled in Kenya.

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

The financial statements for the year ended 31 March 2017 were authorised for issue in accordance with a resolution of the directors.

For Kenyan Companies Act reporting purposes, the balance sheet is represented in these financial statements by the Statement of Financial Position and the profit and loss account by the Statement of Profit or Loss and Other Comprehensive Income.

1. Significant accounting policies

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

These accounting policies are consistent with the previous period.

1.1 Revenue recognition

Interest income

Interest income earned on advances is recognised on a time apportionment basis that takes into account the effective yield on assets.

Fees and commission

Fees and commission income that are integral to the effective interest rate on financial assets are included in the measurement of the effective interest rate.

Other fees and commission income, including monthly service fees, are recognised as the related services are performed.

1.2 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

The current tax charge is calculated on the taxable income for the year using substantively enacted tax rates and any adjustments to tax payable in respect of prior years.

Accounting policies

1.3 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Kenyan Shillings, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Kenyan Shillings by applying to the foreign currency amount the exchange rate between the Kenyan Shilling and the foreign currency at the date of the cash flow.

1.4 Property and equipment

Property and equipment are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company, and the cost of the item can be measured reliably.

Property and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets.

Property and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

The useful lives of items of property and equipment have been assessed as follows:

Item	*Depreciation method*	*Average useful life*
Furniture and fixtures	Straight line	6 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
IT equipment	Straight line	3 years
Leasehold improvements	Straight line	6 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

Accounting policies

1.5 Intangible assets

An intangible asset is recognised when:
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Item	*Useful life*
Software - internally developed	5 years
Software - acquired	3 years

1.6 Impairment of assets

The company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

1.7 Financial instruments

Initial recognition and measurement

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments.

The company classifies financial instruments on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value. For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument. Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses. Loans and receivables include advances originated by the group, cash and cash equivalents and other receivables.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Loans from group companies

Loans from group companies are classified as financial liabilities measured at amortised cost.

Net advances

Net advances are classified as loans and receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest method.

1.7 Financial instruments (continued)

Impairment of financial assets

At each reporting date the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the expected future cash flows of the asset that can be measured reliably. Impairment losses are recognised in profit or loss.

Objective evidence of a loss event is considered in the context of the market segment in which the group operates. A missed instalment is regarded as objective evidence only if such a missed instalment is followed by further missed instalments within a relatively short time period thereafter.

Advances are stated net of identified impairments and incurred, but not identified, impairments. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate.

Non-performing loans are defined as loans that have more than three instalments in arrears, calculated on a cumulative basis by reference to the original contractual instalment. Where a non-performing loan has been modified to ease repayment terms, a new current effective interest rate is calculated and used to discount future cash flows. The restructured loan is accounted for as an extinguishment of the original loan and the recognition of a new loan. The asset is derecognised at the associated value. The restructured loan is recognised at fair value initially and subsequently at amortised cost using the current effective interest rate and the expected future cash flows. The effective interest rate of the new financial asset is the rate determined to arrive at the fair valuation of the loan at the date of the modification. Any difference between the carrying value of the original loan and the initial recognition of the modified loan is recognised in profit or loss. Post the restructure, the loan is valued using the current effective interest rate.

Advances are regarded as written off on an individual basis when no receipts have been received for a period of twelve consecutive months. The written off loans are considered restructured advances and are carried at their recoverable amount, being the present value of estimated future cash flows discounted at the effective interest rate based on the modified terms. The recoverable amount is calculated on a portfolio basis and is disclosed as part of net advances.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Trade and other receivables are classified as loans and receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held on call. Cash and cash equivalents are stated at amortised cost which approximates fair value due to the short-term nature of these instruments.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Accounting policies

1.8 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the year in which they are declared.

1.9 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.11 New accounting standards and interpretations not yet effective

The following amendments to IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements:

1.11 New accounting standards and interpretations not yet effective (continued)

Relevant new standards and amendments to published standards effective for the year ended 31 March 2017:

IAS 1 Disclosure Initiative

The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Company, and should be separated into the share of items that, in accordance with other IFRSs:

(i) will not be reclassified subsequently to profit or loss; and

(ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes. The application of these amendments has not resulted in any impact on the financial performance or financial position of the Company and Company.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment.

The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(i) when the intangible asset is expressed as a measure of revenue; or

(ii) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

As the Company already uses the straight-line method for depreciation and amortisation of its property and equipment, and intangible assets respectively, the application of these amendments has had no impact on the company financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

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

IFRS 5 - The amendments introduce specific guidance in IFRS 5 for when an entity reclassifies an asset or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

IFRS 7 - The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

IAS 19 - The amendments clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

1.11 New accounting standards and interpretations not yet effective (continued)

Relevant new and amended standards in issue but not yet effective in the year ended 31 March 2017.

New standards and amendments to standards	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7 Disclosure Initiative	1 January 2017

Impact of new and amended standards on the financial statements for the year ended 31 March 2017 and future annual periods

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

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

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9. Specifically:

- a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.

- a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.

- all other debt instruments must be measured at FVTPL.

- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Phase 2: Impairment methodology

1.11 New accounting standards and interpretations not yet effective (continued)

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The application of certain new and revised IFRSs has not had a material effect on these financial statements.

1.12 Significant judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgements in applying accounting policies

Management did not make critical judgements in the application of accounting policies, apart from those involving estimations, which would significantly affect the financial statements.

Key sources of estimation uncertainty

Loans and advances

The company assesses its loans and advances for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from the financial asset.

The impairment (or loss allowance) for loans and advances is calculated on a portfolio basis, except for individually significant loans and advances which are assessed separately. The impairment test on the portfolio is based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Useful lives of property, plant and equipment

Management assess the appropriateness of the useful lives of property, plant and equipment at the end of each reporting period. The useful lives of motor vehicles, furniture and computer equipment are determined based on company replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters. The useful life of manufacturing equipment is assessed annually based on factors including wear and tear, technological obsolescence and usage requirements.

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

1.13 Comparatives

Where necessary, comparative figures have been restated to confirm with changes in presentation in the current year.

Notes to the financial statements

Figures in Kenyan Shilling thousand	2017	2016

2. Revenue

	2017	2016
Interest income	1,030,763	988,048
Fee income	92,230	144,672
	1,122,993	**1,132,720**

3. Impairments on loans and advances

	2017	2016
Fair value gains (losses)		
Financial instruments at amortised cost:		
Impairments on loans and advances	(929,972)	(510,145)

4. Other non-operating gains (losses)

	2017	2016
Gains (losses) on disposals, scrappings or settlements		
Bond repurchase	29,933	-

5. Finance costs

	2017	2016
Interest on loan from group company	36,885	126,842
Interest paid on bonds	263,751	169,950
Total finance costs	**300,636**	**296,792**

6. Loss before taxation

Loss before taxation for the year is stated after charging (crediting) the following, amongst others:

	2017	2016
Auditor's remuneration - external		
Audit fees	4,116	2,278
Remuneration, other than to employees		
Administrative and managerial services	253	-
Consulting and professional services	38,790	17,904
Secretarial services	(628)	5,121
	38,415	**23,025**
Employee costs	293,031	320,368
Leases		
Operating lease charges		
Premises	30,517	29,382
Depreciation and amortisation		
Depreciation of property, plant and equipment	32,418	40,885
Amortisation of intangible assets	12,778	4,291
Total depreciation and amortisation	**45,196**	**45,176**

Expenses by nature

The total cost of sales, selling and distribution expenses, marketing expenses, general and administrative expenses, research and development expenses, maintenance expenses and other operating expenses are analysed by nature as follows:

Notes to the financial statements

Figures in Kenyan Shilling thousand	2017	2016

6. Loss before taxation (continued)

	2017	2016
Employee costs	293,031	320,368
Operating lease charges	30,517	29,382
Depreciation, amortisation and impairment	45,196	45,176
Other expenses	196,507	62,285
	565,251	**457,211**

7. Employee cost

	2017	2016
Employee costs		
Basic	196,511	244,227
Commissions	1,966	4,509
Bonus	-	7,953
Medical aid - company contributions	27,708	25,562
Casual wages	1,156	2,367
NSSF	415	588
Leave pay provision charge	5,904	-
Relocation costs	1,353	2,137
Staff welfare	17,066	13,581
Training	1,146	5,856
Recruitment	668	1,670
Retirement benefit plans	8,669	9,115
Termination benefits	30,469	2,803
	293,031	**320,368**

8. Directors' emoluments

Non-executive

2017

	Directors' fees	*Total*
AKJ Ruturi	1,734	1,734
CH Kocks	4,131	4,131
N Mule	1,326	1,326
	7,191	**7,191**

2016

	Directors' fees	*Total*
AKJ Ruturi	433	433
CH Kocks	5,093	5,093
N Mule	1,324	1,324
RA Arnold	1,528	1,528
	8,378	**8,378**

Notes to the financial statements

Figures in Kenyan Shilling thousand	2017	2016

9. Taxation

Major components of the tax expense/(credit)

	2017	2016
Current		
Income tax - current period	85,288	71,334
Deferred		
Originating and reversing temporary differences	136,518	109,039
	(51,230)	**(37,705)**

Reconciliation of the tax expense/(credit)

Reconciliation between accounting profit and tax expense.

	2017	2016
Accounting loss	(642,933)	(131,428)
Tax at the applicable tax rate of 30% (2016: 30%)	(192,880)	(39,428)
Tax effect of adjustments on taxable income		
Prior year impairment of current tax receivable and deferred tax asset	141,650	-
Expenses not deductible for tax purposes	-	1,723
	(51,230)	**(37,705)**

10. Property and equipment

	2017			2016		
	Cost	*Accumulated depreciation*	*Carrying value*	*Cost*	*Accumulated depreciation*	*Carrying value*
Furniture and fixtures	68,061	(31,547)	36,514	67,950	(23,526)	44,424
Motor vehicles	-	-	-	17,216	(9,865)	7,351
Office equipment	14,762	(10,750)	4,012	14,249	(8,313)	5,936
Computer equipment	70,208	(49,199)	21,009	69,856	(29,932)	39,924
Total	**153,031**	**(91,496)**	**61,535**	**169,271**	**(71,636)**	**97,635**

Reconciliation of property and equipment - 2017

	Opening balance	*Additions*	*Disposals*	*Other movements*	*Depreciation*	*Total*
Furniture and fixtures	44,424	111	-	1,588	(9,609)	36,514
Motor vehicles	7,351	-	(5,525)	-	(1,826)	-
Office equipment	5,936	512	-	-	(2,436)	4,012
Computer equipment	39,924	486	(134)	(720)	(18,547)	21,009
	97,635	**1,109**	**(5,659)**	**868**	**(32,418)**	**61,535**

Notes to the financial statements

Figures in Kenyan Shilling thousand	2017	2016

10. Property and equipment (continued)

Reconciliation of property and equipment - 2016

	Opening balance	*Additions*	*Transfers*	*Other movements*	*Depreciation*	*Total*
Furniture and fixtures	42,721	11,010	2,227	-	(11,534)	44,424
Motor vehicles	12,966	-	-	87	(5,702)	7,351
Office equipment	12,289	1,895	(2,227)	-	(6,021)	5,936
Computer equipment	10,208	3,267	34,364	9,713	(17,628)	39,924
Capital - Work in progress	34,364	-	(34,364)	-	-	-
	112,548	**16,172**	**-**	**9,800**	**(40,885)**	**97,635**

Other information

	2017	2016
Fully depreciated property, plant and equipment still in use	31,013	-

11. Intangible assets

	2017			2016		
	Cost	*Accumulated amortisation*	*Carrying value*	*Cost*	*Accumulated amortisation*	*Carrying value*
Computer software, internally generated	62,556	(17,069)	45,487	54,616	(4,291)	50,325

Reconciliation of intangible assets - 2017

	Opening balance	*Additions*	*Other movements*	*Amortisation*	*Total*
Computer software, internally generated	50,325	8,796	(856)	(12,778)	45,487

Reconciliation of intangible assets - 2016

	Opening balance	*Additions*	*Transfers*	*Amortisation*	*Total*
Computer software, internally generated	-	38,014	16,602	(4,291)	50,325
Work in progress	16,602	-	(16,602)	-	-
	16,602	**38,014**	**-**	**(4,291)**	**50,325**

Notes to the financial statements

Figures in Kenyan Shilling thousand	2017	2016

12. Deferred tax asset

	2017	2016
Deferred tax asset		
Advances	-	(40,126)
Deferred tax asset		
Originating and temporary differences	-	176,644
Deferred tax liability	-	(40,126)
Deferred tax asset	-	176,644
Total net deferred tax asset	**-**	**136,518**
Reconciliation of deferred tax		
At beginning of year	136,518	27,479
Accelerated capital allowances	-	(934)
Provisions	-	100,549
Exchange differences	-	10,034
Reverse VAT	-	(610)
Derecognition of deferred tax asset	(136,518)	-
	-	**136,518**

The recognition of additional deferred tax assets on taxable losses in Real People Kenya Limited has been suspended. The deferred tax asset has been impaired by Ksh.136 518 in the current financial year. Although it is likely that a portion of the deferred tax asset will be recoverable, post a successful restructuring of the company, a decision has been taken to impair the assets until a sustainable annual taxable income run rate has been established. This gives rise to a distortion of the company's effective tax rate.

The company has tax losses of Ksh 591 703 (2016: Ksh 93 723) that are available for offsetting against future taxable profits for the next 10 years.

The company did not recognise deferred tax assets of Ksh 37 949 (2016: Ksh nil) in respect of F2017 losses that could be carried forward against future taxable income at current tax rates.

13. Trade and other receivables

	2017	2016
Receivables and prepayments	12,449	27,860
Deposits	6,659	7,852
Deferred finance costs	28,421	57,972
Staff advances	7,475	17,336
	55,004	**111,020**

Notes to the financial statements

Figures in Kenyan Shilling thousand	2017	2016

14. Current tax receivable

A current tax asset of Ksh 244 154 has been recognised due to overpaid taxes in prior years. The claims relate to bad debt that was underclaimed from the KRA in 2014, 2015 and 2016. The validity of the claims according to the KRA guidelines was evaluated extensively by an external service provider. After this process, the excess tax paid on bad debts for the prior years was calculated to be Ksh 177 135. In addition to this amount, there is an assessed refund due from the KRA for 2016 of Ksh 67 019.

External collection experts were engaged to ascertain the probability of receiving the refund from the KRA in cash. These experts all have considerable experience obtaining refunds of overpaid tax from the KRA and are willing to accept the engagement to recover the cash on a success fee basis only. The expectation is that the entire amount would be received in cash within the next 12 months.

Under section 15(2) of the ITA, bad debts are allowable deductions only if they are proved to the satisfaction of the Commissioner to have become bad. Therefore, it is imperative to note that the Commissioner has the discretion to grant a tax deduction for bad debts depending on the evidence provided. Where a taxpayer is of the opinion that the Commissioner improperly exercises his discretion as to whether the KRA guidelines have been applied correctly, and disallows the claim, the courts are empowered to intervene and determine whether the discretion was judicially, rationally and fairly exercised, and not arbitrarily, or in deliberate disregard of the rules of natural justice.

The KRA becomes liable for interest on the outstanding amount after a period of 2 years.

Composition of balance	2017	2016
Overpaid taxes 2014	9,191	-
Overpaid taxes 2015	96,610	-
Overpaid taxes 2016	71,334	-
Assessed refund 2016	67,019	-
Current tax asset	-	56,406
Withholding tax	7,063	6,997
Total	**251,217**	**63,403**

15. Loans and advances to customers

	2017	2016
Performing advances	906,924	2,025,604
Non-performing advances	1,933,258	1,083,536
Provision for impairments	(1,895,285)	(1,024,059)
At the end of the year	**944,897**	**2,085,081**

Provision for impaired loans and advances	2017	2016
At beginning of the year	(1,024,059)	(579,674)
Additional provision during the year	(871,226)	(444,385)
At the end of the year	**(1,895,285)**	**(1,024,059)**

Figures in Kenyan Shilling thousand	2017	2016

15. Loans and advances to customers (continued)

In the opinion of the directors, the carrying amounts of loans and advances approximate their fair value.

The company's credit risk arises primarily from loans and advances. There is no concentration of credit risk and the directors are of the opinion that the company's exposure is limited because the debt is widely held.

The carrying amounts of the company's loans and advances are all denominated in Kenyan Shillings.

The directors have made a provision for the portion of the loans and advances whose recovery is in doubt. Loans that are less than three months past due are not considered to be individually impaired but a portfolio provision is recognised.

Loans and advances to customers have been written down to their recoverable amount. Non performing loans and advances on which provisions for impairment have been recognised amount to KSh 1.933 billion (2016: KSh 1.084 billion). These are included in the statement of financial position net of provisions at KSh 945 million (2016: KSh 2.085 billion)

Adjustments were made to asset carrying values result from changes in circumstances in the current period. The business increased the emergence period on performing loans from one to three months, and increased the loss identification period from three to twelve months. This in combination with a recalibration of future expected receipts on the non-performing loan and written off portfolios to reflect current circumstances resulted in an overall negative adjustment of Ksh 79 million.

16. Cash and cash equivalents

Cash and cash equivalents consist of:

	2017	2016
Cash on hand	5,278	4,021
Bank balances	214,734	379,380
	220,012	**383,401**

	2017	2016
Kenyan shillings	219,833	382,868
US dollars	(8)	369
South African rands	187	164
	220,012	**383,401**

17. Tax paid

	2017	2016
Balance at beginning of the year	63,403	(40,819)
Current tax for the year recognised in profit or loss	(85,288)	(71,334)
Balance at end of the year	(251,217)	(63,403)
Tax paid during the year	**(273,102)**	**(175,556)**

18. Share capital

	2017	2016
Authorised		
2,500,000 Ordinary shares of KSh 100 each	250,000	250,000
Issued		
2,500,000 Ordinary shares of KSh 100 each	250,000	250,000
Share premium	500,000	500,000
	750,000	**750,000**

The issued and paid up ordinary shares were issued at a premium of KSh 200 resulting in a share premium reserve of KSh 500 million.

Notes to the financial statements

Figures in Kenyan Shilling thousand	2017	2016

19. Other payables

	2017	2016
Trade payables	(4)	2
Accrued leave pay	5,904	-
Accrued expenses	6,123	11,567
Salary control accounts	5,939	11,225
Deposits received	-	3,377
	17,962	**26,171**

20. Borrowings

	2017	2016
Loan from DMC Debt Management (Pty) Ltd	9,284	451,844
Medium term note	1,244,901	1,551,660
	1,254,185	**2,003,504**

The related party loan is unsecured and has no specific date of repayment. The loan is denominated in South African Rand (ZAR). Interest is payable at 16% (2016: 12.6%). The loan has no fixed date of maturity, but the account is being repaid on a monthly basis.

The medium term note is a Kenya Shillings denominated bond. The face value interest rate is 13.65% and it is repayable over a 3 - 5 year period between August 2018 and August 2020.

Movement in related party loan balances	2017	2016
At the beginning of the year	451,844	1,068,940
Repayments	(442,560)	(617,096)
	9,284	**451,844**

Movement in medium term note	2017	2016
Opening balance	1,551,660	-
Proceeds from issue	-	1,551,660
Repurchases	(306,759)	-
Closing balance	**1,244,901**	**1,551,660**

21. Cash generated from operations

	2017	2016
Loss before taxation	(642,933)	(131,428)
Adjustments for:		
Depreciation and amortisation	45,196	45,176
(Gains) losses on disposals, scrappings and settlements of assets and liabilities	(177)	676
Other non cash items	(33,723)	-
Changes in working capital:		
Loans and advances to customers	1,140,184	(457,410)
Other payables	(8,209)	2,014
Trade and other receivables	56,016	-
Other non cash items	(12)	(9,799)
	556,342	**(550,771)**

22. Related parties

Relationships	
Ultimate holding company	Real People Investment Holdings Limited
Holding company	Real People Holdings International Limited
Group company	DMC Debt Management (Pty) Limited

22. Related parties (continued)

Related party balances

	2017	2016
Loan accounts - Owing to related parties		
DMC Debt Management (Pty) Limited	9,284	451,844
Related party transactions		
Interest paid to related parties		
DMC Debt Management (Pty) Limited	36,885	126,842
Administration fees paid to related parties		
DMC Debt Management (Pty) Limited	24,427	-

23. Risk management

Capital management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying asset. In order to maintain or adjust the capital structure, the company 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 company monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt : capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Capital comprises all components of equity.

The company is in possible breach of its externally imposed capital requirements after year end and discussions with the Trustee and the bondholders are underway.

The gearing ratio is as follows:

	2017	2016
Borrowings	1,254,185	2,003,504
Cash and cash equivalents	220,012	383,401
Net debt	1,034,173	1,620,103
Total equity	306,005	897,709
Gearing ratio	0,29	0,55

Financial risk management

The company's activities expose it to credit risk, liquidity risk and market risk arising from the use of financial instruments.

The board of directors has overall responsibility for the establishment and oversight of the company's risk management framework. The board has delegated certain of its functions to committees, but recognises that it retains ultimate responsibility for the effective performance of the functions so delegated.

The aim of the committees is to assist the board in the execution of its duties by making recommendations on a variety of issues within a framework of defined terms of reference that have been agreed with the board.
The company reviews its foreign currency exposure, including commitments on an ongoing basis. The company expects its foreign exchange contracts to hedge foreign exchange exposure.

- Audit and risk committee - This committee is responsible for reviewing the adequacy and overall effectiveness of the company's risk management function and its implementation by management.
- Credit committee - The credit committee is responsible for the management of credit risk for net advances.

23. Risk management (continued)

- Asset and liability committee (ALCO) - The responsibilities for ALCO include liquidity risk management, interest rate risk management, currency risk management and capital risk management.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its current and future obligations, both expected and unexpected, without materially affecting its daily operations or overall financial position.

The business model of the company is to finance relatively short term assets with long term liabilities, necessarily creating a positive liquidity mismatch. Monitoring and reporting takes the form of cash flow projections for the next week and next month as well as long term cash flow forecasting and an ongoing review of future commitments and credit facilities taking into account restrictions on cash flows between individual companies.

The short term liquidity policy requires that for any twelve month period available cash reserves and unutilised credit facilities together with 90% of anticipated receipts, excluding receipts received by non_recourse funding special purpose entities, must be at last equal to the sum of all fixed payment commitments (including long term debt, tax and operating overheads). Prospective loan disbursement volumes are adjusted where necessary in order to ensure compliance with this requirement.

The long term liquidity policy requires that at any point on the funding profile 75% of expected cumulative receipting must exceed the cumulative contractual payments relating to debt obligations. This is measured and monitored on a monthly basis and excludes cash flow relating to non-recourse funding special purpose entities.

The cash flows for the non-recourse funding special purpose entities are managed separately and in terms of the transaction documents agreed when the entity is established.

2017	*Up to 1 year*	*From 2 to 5 years*	*Total*
Cash and bank	220,012	-	220,012
Loans and advances	944,897	-	944,897
Borrowings	(9,284)	(1,244,901)	(1,254,185)
Net liquidity gap	**1,155,625**	**(1,244,901)**	**(89,276)**

2016	*Up to 1 year*	*From 2 to 5 years*	*Total*
Cash and bank	383,401	-	383,401
Loans and advances	2,085,081	-	2,085,081
Other liabilities	(451,844)	(1,551,660)	(2,003,504)
Net liquidity gap	**2,016,638**	**(1,551,660)**	**464,978**

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The company originates predominantly variable rate retail lending assets. The interest rate component of the total yield of the asset varies according to different term and loan amounts (due to the fixed and available fees charged). For many of the assets the instalment is fixed, so an increase in the variable interest rate results in term extension rather than an increase in instalment and therefore these assets behave more like fixed interest rate assets.

Interest rate risk is assessed by measuring impact of changes in interest rates on net interest income that is the difference between the total interest income and the total interest expense.

The company has exposureto interest rate changes on liabilities as the company has interest bearing liabilities. At 31 March 2017, if interest rates at that date had been 100 basis points higher with all other variables held constant, post tax loss for the year would have been KSh 8,176 million (2016: KSh 14,024 million) lower, arising mainly as a result of higher interest expense on variable borrowings.

Credit risk

Figures in Kenyan Shilling thousand	2017	2016

23. Risk management (continued)

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's loans and advances to customers.

The company focus is the provision of largely unsecured credit to emerging and middle market consumers, which by its nature involves assuming higher levels of credit risk and accordingly, credit risk features a the dominant financial risk in the company.

An appropriate credit risk premium is priced into each credit product tot ensure that acceptable returns are generated for shareholders. Credit risk premiums are based on expected probability of defaults and estimated recoveries from defaulters.

The company's exposure to concentration risk is low due to the nature and distribution of the loan book. The advances portfolio comprises large volumes of low value loans.

The company continually monitors the performance of each loan. Where payments are missed, the loan repayment period might be extended to ensure repayment of all required instalments. In other circumstances the company may be required under law to renegotiate a loan. However, these loans remain either past due or impaired and therefore the company does not provide separate analysis of renegotiated items in terms of IFRS 7.

Financial assets exposed to credit risk at year end were as follows:

	2017	2016
Net loans and advances to customers	944,897	2,085,081
Bank balances	220,012	383,401

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	2017	2016
Neither past due nor impaired	906,924	2,035,029
Past due but not impaired	539,120	402,841
Impaired	1,394,138	680,696
Gross advances	**2,840,182**	**3,118,566**
Less: allowances for impairment	(1,895,285)	(1,033,485)
Net advances	**944,897**	**2,085,081**

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the South African Rand. The risk arises from future transactions, assets and liabilities at the statement of financial position date.All cash at banks is held with reputable institutions with good credit history and are regulated by the Central Bank of Uganda. At 31 March 2017 the company did not consider there to be any significant concentration of credit risk which had not been adequately provided for.

24. Going concern

In terms of the international financial reporting standards applied by the company, its directors have to make an assessment of its ability to continue as a going concern, since the financial statements should be prepared on the going concern basis unless there is an intention to liquidate the company, to cease trading, or where the directors have no realistic alternative but to do so. In addition, where the directors are aware of material uncertainties that may cast significant doubts on the company’s ability to continue as a going concern, these uncertainties should be disclosed. In their assessment the directors should take into account all available information related to the future.

Figures in Kenyan Shilling thousand	2017	2016

24. Going concern (continued)

At the time of preparing the financial statements the company's management remains cautious on its prospects for a return to profitability and a restoration of the business' internal capital generating ability in the near to medium-term, as strategic turnaround initiatives gain traction within a difficult and unpredictable operating environment. The greatest uncertainties relate to a shift in targeted lending segments, associated credit supply volume developments and future impairment losses on the lending portfolio coupled with the stakeholder interaction that has now been initiated to restructure the company's liabilities and recapitalise the business.

The appropriateness of the going concern assumption is dependent on certain expectations with respect to the financial condition and results of operations which by their very nature, involve risk and uncertainty because they are contingent upon circumstances that may or may not occur in the future. Factors that could cause actual results to materially differ from those planned and which may compromise the business as assessed by management include, but are not limited to, a successful capital raising either through current bond conversion or a new partner, continued access to funding, global and domestic macro events, interest rates, credit or other lending risks.

In assessing the appropriateness of a going concern assumption the directors have taken note of current developments within the business, to determine and assess a set of plausible and achievable assumptions that were used for forwarding-looking business plans. These assumptions are linked to turnaround initiatives currently in place and include:

- Strategic intervention by experienced turnaround and restructuring specialists;
- Introduction of new, experienced Kenyan top management within the short term;
- Increased collections from the non performing portions of the debtors' book, already evidenced since the start of the 2018 financial year;
- Expected outperformance from highly profitable collections as a result of continuous refinements and the setting up of a new tailor-made Recovery Division;
- The introduction of a new simplified short term product which is expected to increase new business and promote additional growth;
- Engagement with and interactions with current bondholders to convert a reasonable portion of the face value of issued bonds to equity, which will decrease the liability as well as the interest expense;
- A material capital raising is expected in January 2018. No interest income has been assumed from the excess cash that remains in place in the forecast models;
- It is expected that monthly cash balances will continue to show increases of Ksh.20m or more before interest; and
- The reduced incidence of transactions rolling into non-performing loan categories is expected to continue, due to current initiatives.

In the light of all of the above considerations the directors believe that it is appropriate to prepare the financial statements on a going concern basis.

25. Commitments

Operating leases – as lessee (expense)

	2017	2016
Minimum lease payments due		
- within one year	19,209	30,114
- in second to fifth year inclusive	37,161	48,856
	56,370	**78,970**

Operating lease payments represent rentals payable by the company for certain of its office properties. No contingent rent is payable.

26. Currency

These financial statements are presented in Kenyan shillings in thousands (Shs '000), the Company's functional and presentation currency.

27. Events after the reporting period

The capital covenants relating to the bonds have declined below the required levels from April 2017 and the necessary parties have been informed. Negotiations are planned with the current bondholders in order to rectify the issue.