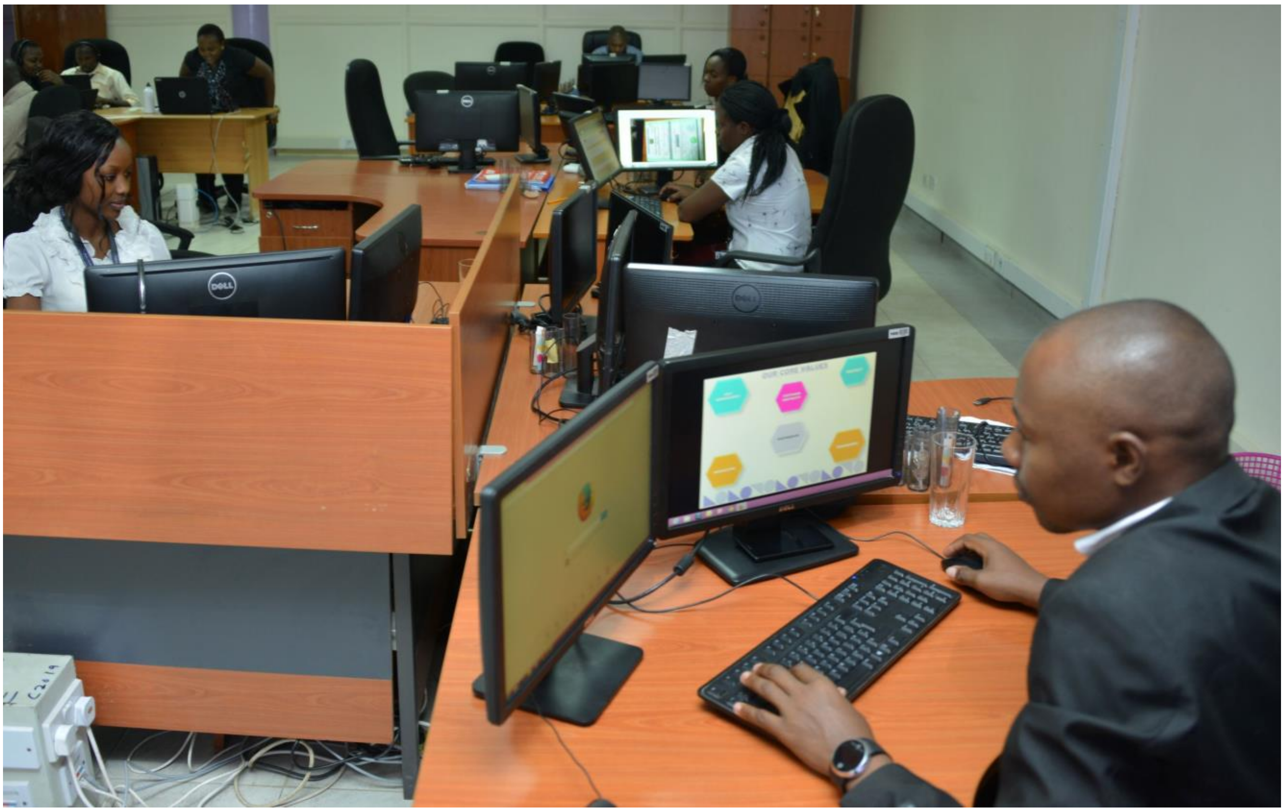
REAL PEOPLE™

Responsible finance. Sustainable futures.

Real People Kenya Limited

ANNUAL REPORT

for the year ended 31 March 2019



We are

Real People

for real people

Content

1. Background and organisational overview

Real People Kenya Limited (RPKL) is a non-deposit taking financial solutions provider for businesses. We target the mass market with a particular interest in the Small and Medium Enterprises sector in Kenya.
In 2015 RPKL listed medium notes. There has been no trading in the unlisted shares or the listed medium-term notes. The company has an approval framework that is committed to treat all shareholders equitably.
Our operations are built for a focused portfolio of businesses. Our services are anchored on the provision of responsible finance solutions to individuals and businesses through tailored products such as the Business Finance Loan Facility (MEF) and Real Cash, which is a short-term loan for emergencies. At Real People Kenya our customers are central to what we do. They are the reason we exist and as such, our products are driven by a commitment and a vision of “Sustainably Improving Lives”.
In the next few months we intend to diversify to insurance premium financing and mobile phone-based loan products in order to meet the increasing needs of our customers and prospective customers.
We are spread across Kenya, operating in the major towns across the country. We have offices in Mombasa, Malindi, Nairobi, Thika Meru, Nakuru, Eldoret and Kisumu.

2. Situational analysis

RPKL is a medium-tier player in the credit-only microfinance sector. Our influence has been diminishing in the past 3 years due to poor underwriting in the past, the deterioration of the loan book written before 2018, high staff turnover and limited funding options, along with capital depletion. While improvements have been noted in the past year, the company is still not out of the woods.
The Kenyan economy hasn’t been steady for the last 2 years; and more so since the 2017 elections. The impact of rising and often unpredictable fuel prices, delay by the county and national governments to pay suppliers, and rising inflation all contribute to a volatile business environment. These and the greater focus for more regulation in the microfinance sector all have served to make the business outlook to be rather dim. The interest rate caps on bank lending also serve to create an unbalanced playing field for the sector in which we operate.
Real People Kenya Limited has made its submission on the Micro Finance Bill which is pending tabling in Parliament. If enacted in its current form the bill will complicate the discharge of business further for players in this field.

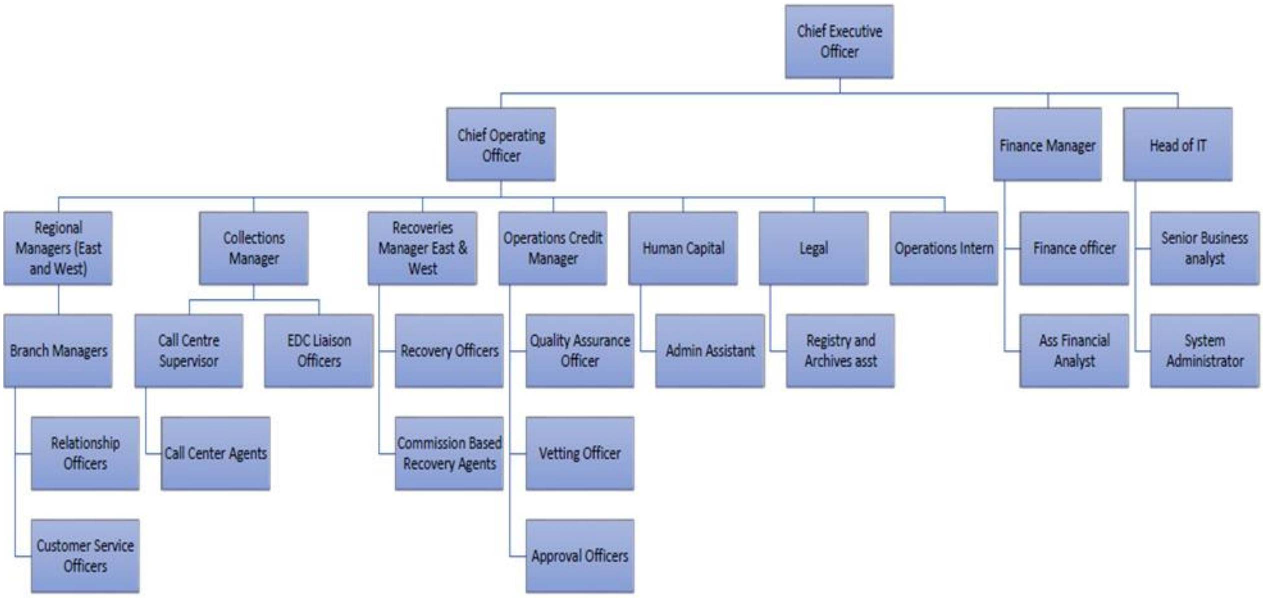
3. Governance structure and how it supports the ability to create value

Real People Kenya Limited is a public company registered under the Companies Act subscribing to the highest standards of governance. Our stakeholders include a wide variety of people and entities: our clients, our staff members, our funders, our shareholders, our suppliers, our regulators, the communities where we provide services, and the government. They all deserve our best endeavours to act correctly and sustainably. We are also a member of AMFI Kenya, the industry body.
Our governance and risk frameworks are integrated in our operations to enable enhanced accountability, effective risk management, clear performance management, greater transparency and effective leadership. The Governance and Management framework was approved in September 2016. The framework outlines the preferred governance model for decision making to be decentralized to the lowest level where quality decisions can be made.
At the helm we have a board of directors that then guides the executive team in the execution of the business strategy and provides business direction. The CEO is charged with the overall direction of the company and he or she works closely with the Executive Committee to do this.

The key objectives of the board are highlighted below and in our board charter:

a) Provision of entrepreneurial leadership
b) Strategy formulation and oversee implementation
c) Review and approval of strategic plans
d) Monitoring of company’s performance against strategic plans and objectives.

Below is an abridged version of our interim organogram with many other key positions not currently included as a result of the restructuring exercise undertaken in 2016;



We have clearly defined roles and policy guidelines to guide decision making and harmonize actions; and we strive to have effective leadership that unites purpose and performance by inculcating an ethical and risk-aware culture which creates an enabling, yet competitive environment.
An internal legal and compliance audit is undertaken annually and there have been no adverse findings. The quality assurance function has been elevated and is effective. Its findings are implemented and elevated to the board and shareholders when necessary.
RPKL is compliant with 97.6% of all the mandatory aspects as stipulated in the CMA guidelines and the company is committed to full compliance by next year.

4. Business model

At Real People Kenya our client is at the core of all decisions. We endeavour to deliver our services in the most ethical and efficient way. This should enable us to grow a quality loan book while ensuring client satisfaction by offering the best levels of service possible. This commitment is embodied in our service charter in which we commit to:

4.1. Quality, responsive services
4.2. Courtesy and respect
4.3. Fair and equal services
4.4. Accountability
4.5. Confidentiality

This is a major shift from the previous business model which was focused more on our operational capabilities.
Our business model allows us to respond to client needs in a competitive environment. We manage our resources prudently to deliver best outcomes for our customers, our staff and shareholders. We engage our customers as individuals and give them special attention to resolve their financial needs, where possible.
Our biggest challenge is limited product offering and capital inadequacy. Currently we are offering a single product called Micro Enterprise Finance.
Diversification is of key importance in remaining relevant and competitive. To this end we are in the process of developing new products to enhance our suite. The availability of capital will be a key consideration as to whether we are able to offer these much-needed products to the market.

5. Risks and opportunities

We operate in a highly competitive niche in the Kenyan economy, focusing on the lower SME and upper Micro business sectors. The business environment is now very dynamic, and the customer is more informed and aware of their rights more than ever before. Technology is also changing very fast. More players have moved into this space, hence making focus on the same customers very high. Mainstream banks are still also focusing on the same customers. All these factors, while increasing financial access, also pose increased risk, with the customer being multi borrowed and thus driving default rates up and threatening to lower returns for players such as Real People Kenya Limited.

Labour force mobility is another threat. Micro-finance is a relationship business; hence when staff resign, there is a possible disruption in the customer relationship management. In extreme cases the ex-staff even tend to try and take clients with them.

Another key threat has been the difficult economic conditions in the country. This has led to the collapse of some client businesses, and thus increasing default rates.

However, there are also several opportunities in this market. The summary below summarizes the SWOT analysis of Real People.

	Strengths	**Weakness**
Internal	1. Well-developed market segment knowledge and skills 2. Committed and resilient workforce 3. Proper strategic oversight by knowledgeable board 4. Experience in crisis management	1. Limited products offer 2. Limited capital base 3. Expensive funding 4. High cost base/Scalability concerns 5. Expensive and limited IT system capabilities
	Opportunities	**Threats**
External	6. Customer loyalty 7. Adaptive to change 8. Established business infrastructure	9. Regulatory risks 10. Liquidity pressure 11. Competition 12. High staff turnover 13. Technology – IT systems 14. Uncertainty as going concern 15. Difficult/poor collections
	Positive	**Negative**

6. Our strategy

Our business strategy is developed thorough a consultative process. It was presented and approved by the board with amendments as necessary.

We endeavour to improve lives sustainably by offering responsible financial solutions to our clientele. We do this by adhering to our core values which are;

1.1. Self-improvement
1.2. Customer centricity
1.3. Respect,
1.4. Innovation
1.5. Partnership creation and
1.6. Teamwork.

With this in mind and also considering the plans and key challenges we are faced with, the following 5 areas form the core of our short- to medium-term strategy;

a) Change management strategy
b) Growth and client focus strategy
c) Collections strategy
d) Operational efficiency strategy

e) People strategy

These strategies should enable us to have increased returns and turn the business into sustainability/break even status.

7. Resource allocation

7.1 Human capital

We have a labour force of 94 permanent and 7 non-permanent members of staff. These are distributed across the country within our branch network. This has fundamentally changed from 2015 after which we had to do a voluntary exit as a part of our restructuring plans. Since 2016 we have reduced the work force by 55% in numbers. We are forever striving to be more efficient without compromising on client service even as we keep the salary bill low.
We value integrity and learning highly. We pride ourselves on training and challenging our people to self-improve continuously.
The distribution below provides statistics on the human capital complement;

Permanent Staff 2015				
Age/Gender	F	M	Total	Mean age
20-30	43	36	79	
31-40	70	52	122	
41-50	2	7	9	
Total	**115**	**95**	**210**	**33**

Permanent Staff Current				
Age/Gender	F	M	Total	Mean Age
20-30	5	11	16	
31-40	33	31	64	
41-50	8	6	14	
Total	**46**	**48**	**94**	**35**

Permanent Difference				
Age/Gender	F	M	Total	Mean Age
20-30	38	25	63	-
31-40	37	21	58	-
41-50	- 6	1	- 5	-
Total	**69**	**47**	**116**	**-2**

7.2 Financial Capital

We raised funds previously through the issuance of corporate medium-term notes. This enabled us to raise about Kshs 1.6B in August 2015.Part of this was repurchased in 2017, leaving over Kshs 1.3B outstanding. While the covenants have been breached, we endeavour to inform the note holders as matters develop within our turnaround plans. The company in December 2018 negotiated with its note holders to change the redemption dates to four equal tranches in 2022, 2024, 2026 and 2028, provided that we get an investor that will be acceptable to at least 75% of the note holders by value, and provides at least KSh.600million of fresh equity. The company has never defaulted on any obligation. At every stage the debt has been renegotiated with strong support from note holders, and every payment has been made in line with the renegotiated agreement.
The future of the company is almost wholly dependent on whether or not we get the investor who meets the criteria aforementioned.

7.3 Intellectual Capital

We have managed to change our products over time to suit the market needs. The product design is based on proper research and anchored on an activity-based costing model to ensure viability. Additionally, our new product is fully secured, thus limiting the risk of default and striving to ensure recovery in case of complete default.

7.4 Social capital

Real People Kenya Limited currently has about 8 000 clients. While most of these are non performing, we have about 1 000 clients in the performing book, paying their loans as per contract. Through these clients RPKL impacts the society in many ways. We create opportunities for the business people who then in turn create employment either directly or indirectly. It is estimated that on average the RPKL client has 3 direct employees; not to mention the indirect linkages with suppliers, creditors, bankers etc.

We currently work only with businesspeople who operate from fixed premises. These businesses must meet all the compliance requirements by both central and county governments to be financed. Despite these requirements, most of the clients that we serve operate in the informal sector and thus are invariably high-risk. Even when we liquidate the security it is always regrettable especially since most of the business failures are as a result of poor and sometimes clearly anti-business policies by the government. To cater for this high risk category, we have to charge premium rates.

8. Performance and achievement

Performance is proactively and progressively managed. The trend in the past 2 years, though we remain loss-making, has been positive. The details are as per the included AFS. The key reason that impacts our sustainability is the high provisions and a cost base that is not covered by a suitably scaled lending book.
Despite all these we have never failed to honour any of our financial obligations and don't plan to fail to honour them in future; we are proactively managing the situation to ensure all obligations are met.

9. Outlook and challenges facing the company and their implications

The Kenyan economy is projected to grow at 5-7% in the year. Intervening circumstances will however still pose a challenge. Despite the infrastructure development some strategic decisions by the government may impact the performance negatively in the long run. These factors are further exacerbated by an unpredictable natural environment which then affects agricultural production. The factors that may impact business are elaborated on in the table below;

FACTOR/CHALLENGE	DESCRIPTION/COMMENTS	IMPACT ON RPKL
Regulatory	Restriction on import age of 2nd hand vehicles, vehicle spares.	Likely to see reduction in import of new vehicles. This will affect the availability of securities used to secure loans.
	Tax regime – Presumptive tax, turnover tax.	Minimal impact especially in Q1 when most businesses pay for their permits. Low-end businesses likely to avoid this altogether relying instead on the informal/daily receipts. This will limit clients available for funding. Any increase in taxes always has casualties resulting in some business closures
	Micro Finance bill 2019	Aims for more regulation of the sector More stakeholder involvement needed before this can be enacted
	Change of ownership in the RPKL business	Depending on this outcome the nature and character of the business may change with far reaching implications in the business direction. The impact is also the same if the business fails to get a suitable investor
Political/Governance	Building bridges initiative created stable business environment	Bring Stability in the business environment Allows enterprise growth which is good for our customers.
	Corruption and high cost of doing business. Rampant culture of facilitation in award and payment of tenders persists in most counties.	This reduces the margins for most businesses thus impacts their profitability. Also results in delayed loan repayments. RP doesn't finance tenders, but the linkage is inevitable
	Eliminate cargo transport by road from Mombasa to Nairobi/Naivasha	If the government enforces the directive for the transport of cargo from Mombasa via SGR, it is bound to kill some businesses which are driven by Transport business. Directly hit will be Petro stations, eateries and accommodation related businesses. This will affect eventually affect the SME sector

Terrorism and Security Concerns	Recent terrorism actions though taken with moderation can impact on wider economy.	Implied warnings (not travel advisories) have impact on the tourism sector thus affect businesses especially in Mombasa, Mtwapa and Malindi branch.
Economic	Farm inputs and cost of fuel.	Increasing fuel prices and farm inputs likely to drive up food prices which will affect consumption patterns.
	Delay by state to release finance and reduction in counties allocation from treasury.	This continues to affect businesses especially those in sectors serving the various ministries but notable the free school learning program and counties
	High Inflation	Erode the purchasing power and reduce disposable income thus impact demand which is not good for enterprise

With expected on-boarding of strategic investor(s) we hope to see enhanced liquidity which we will apply to deliver services and roll out products that meet the market demands. This is expected to return RPKL to profitability and service our debt instruments within our covenanted limits.

REAL PEOPLE™

Responsible finance. Sustainable futures.

Real People Kenya Limited
(Registration number C3/2015)
Financial statements
for the year ended 31 March 2019

General Information

Country of incorporation and domicile	Kenya
Nature of business and principal activities	Provision of credit to small business owners
Company registration number	C3/2015
Registered office	L.R. No 209/6871 International Life House Mama Ngina Street Nairobi
Auditors	BDO East Africa Kenya Certified Public Accountants (Kenya) Unit C1, Block C Sameer Business Park Mombasa Road Nairobi
Secretary	Cornelius Kimamo Kigera PO Box 10643-00100, Nairobi
Holding company	Real People Holdings International Limited incorporated in Mauritius
Ultimate shareholder	The GVR Trust incorporated in South Africa

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KENYA

Contents

Audit Committee Report

This report is provided by the audit committee appointed in respect of the 2019 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 sets 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, 2015 and as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided by the Kenyan Companies Act, 2015 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 considers 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.

Audit Committee Report

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.

On behalf of the audit committee

BH Pieters
Chairman Audit Committee

16 July 2019

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Statement of Directors' Responsibilities

The directors are required in terms of the Kenyan Companies Act, 2015 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The Kenyan Companies Act, 2015 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 irregularities.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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, 2015. 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.

The directors have reviewed the company's cash flow forecast for the year to 31 March 2020 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

Having made an assessment of the company's ability to continue as a going concern as set out in more detail in note 5, 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 advisors, that the company will continue in operational existence for the foreseeable future, providing that the support providers of new equity is received as planned.

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

Statement of Directors' Responsibilities

The external auditors are responsible for independently auditing and reporting on the company's financial statements. The financial statements have been examined by the company's external auditors and their report is presented on pages 9 to 10.

The financial statements set out on pages 12 to 48, which have been prepared on the going concern basis, were approved by the board of directors on 16 July 2019 and were signed on their behalf by:

CH Kocks

TM Karanja

Report of the Directors

The directors present their report together with the audited financial statements for the year ended 31 March 2019.

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, 2015. The accounting policies have been applied consistently compared to the prior year.

Financial results in Kenyan Shilling Thousands	2019	2018
Loss before taxation	(172,958)	(397,242)
Tax (charge) / credit	-	26,173
Loss for the year transferred to retained earnings	**(172,958)**	**(371,069)**

The financial year ended on a more positive note for the company. The company recorded a loss after tax of KES 173 million. The loss was attributable to a deteriorating operating environment resulting in higher impairments and to the revenue generating activities of the company being sub-scale.

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 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

Deferred tax assets

The recognition of additional deferred tax assets on taxable losses in the company remains suspended.

3. Authorised and issued share capital

There has been no change in the authorised or issued share capital during the year under review.

4. Dividends

The board of directors do not recommend the declaration of a dividend for the year.

5. Directors

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

Directors	Office	Designation	Nationality	Age (Years)
YM Godo	Director	Non-executive	Kenyan	38
TM Karanja	Director	Non-executive	Kenyan	43
CH Kocks	Chief Executive Officer	Executive	South African	65
EN Ndemo	Director	Non-executive	Kenyan	48
BH Pieters	Director	Non-executive	South African	69

6. Provision protecting directors from liability

There is no contract agreement between the company and the directors to exempt the directors from any liability that would otherwise attach to the directors in connection with any negligence, default of duty or breach of trust in relation to the company.

Report of the Directors

7. Shareholding

The ordinary shares in the company are held by Real People Holdings International Limited (99.99988%) and management (0.00012%).

8. Secretary

The company secretary is Mr Cornelius Kimamo Kigera.

Postal address:	PO Box 10643-00100 Nairobi

9. Terms of appointment of the auditor

BDO East Africa Kenya continues in office in accordance with the company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

10. Statement of disclosure to the company's auditors

With respect to each person who is a director on the day that this report is approved:

- there is, so far as the person is aware, no relevant audit information of which the company's auditors are unaware; and
- the person has taken all the steps that he/she ought to have taken as a director to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

11. Debenture

No debenture was issued during the period.

12. Events after the reporting period

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

13. 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 5, 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 providing that the support of providers of new equity proceeds as planned. There is as yet no certainty in this regard.

By Order of the Board

EN Ndemo
Chairperson
16 July 2019

BDO

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Nairobi, Kenya

Independent Auditor's Report

To the shareholders of Real People Kenya Limited

Report on the Audit of the Financial Statements

Disclaimer of opinion

We were engaged to audit the financial statements of Real People Kenya Limited set out on pages 12 to 48, which comprise the Statement of Financial Position as at 31 March 2019, 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 matter 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

Material uncertainty related to going concern

We draw attention to note 5 in the financial statements, which indicate that the company incurred a net loss of KES 173 million during the year ended 31 March 2019 and has accumulated losses of KES 989 million, as of that date, the company's current liabilities exceeded its total assets by KES 238 million. These events or conditions, along with other matters as set forth in note 5, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern.

Medium term note

The maturity of the 3 year bond was extended from August 2018 to August 2019. As a result, the company has a financial liability that matures in August 2019. The bond has a nominal value of KES 267m. In our opinion, the company will not be able to meet its current obligation in August 2019. The company is in negotiations with all the bond holders to further extend the maturity date.

Other information

The Directors are responsible for the other information. The other information comprises the Report of the Directors and the Audit Committee's Report as required by the Kenyan Companies Act, 2015 of Kenya, which we obtained prior to the date of this report. Other information does not include the financial statements and our auditor's report thereon.

However, due to the disclaimer of opinion in terms of the International Standard on Auditing (ISA) 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report, we are unable to report further on this other information.

Responsibilities of the directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's Report

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 matter described in the Basis for Disclaimer of Opinion section of our report, we were unable 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 the Kenya Companies Act, 2015 we report to you, based on our audit, that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit;
- In our opinion proper books of accounts have been kept by the company, so far as it appears from our examinations of those books; 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.

BDO East Africa Kenya
Certified Public Accountants of Kenya

Clifford Ah Chip, engagement partner responsible for the independent audit
Practicing registration number P/1964

Date: 19 / JULY / 2019

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Certified Public Accountants

Real People Kenya Limited

Financial Statements for the year ended 31 March 2019

Statement of Profit or Loss and Other Comprehensive Income

Figures in Shillings thousand	Note(s)	2019	2018
Revenue	6	236,197	635,397
Impairments of loans and advances	7	126,415	(413,944)
Other operating income	8	1,682	-
Other operating expenses		(342,134)	(397,254)
Operating profit (loss)	9	**22,160**	**(175,801)**
Finance cost	10	(187,413)	(221,468)
Other non-operating gains (losses)	11	(7,705)	27
Loss before taxation		**(172,958)**	**(397,242)**
Tax (charge)/credit	14	-	26,173
Loss for the year		**(172,958)**	**(371,069)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(172,958)**	**(371,069)**

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Statement of Financial Position as at 31 March 2019

Figures in Shillings thousand	Note(s)	2019	2018
Assets			
Non-Current Assets			
Equipment	15	17,023	29,145
Intangible assets	16	19,743	33,472
		36,766	**62,617**
Current Assets			
Current tax receivable	18	279,132	279,124
Trade and other receivables	19	12,268	28,827
Loans receivable	20	644,606	552,814
Cash and cash equivalents	21	81,559	282,655
		1,017,565	**1,143,420**
Total Assets		**1,054,331**	**1,206,037**
Equity and Liabilities			
Equity			
Share capital	23	750,000	750,000
Accumulated loss		(988,021)	(815,063)
Total Equity		**(238,021)**	**(65,063)**
Liabilities			
Non-Current Liabilities			
Other financial liabilities	24	1,008,847	964,123
Current Liabilities			
Trade and other payables	25	12,817	11,744
Other financial liabilities	24	270,688	295,233
Total Liabilities		**283,505**	**306,977**
Total Liabilities		**1,292,352**	**1,271,100**
Total Equity and Liabilities		**1,054,331**	**1,206,037**

The financial statements and the notes on pages 12 to 48, were approved by the board of directors on the 16 July 2019 and were signed on its behalf by:

CH Kocks

TM Karanja

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Statement of Changes in Equity

Figures in Shillings thousand	Share capital	Share premium	Total share capital	Accumulated loss	Total equity
Balance at 01 April 2017	**250,000**	**500,000**	**750,000**	**(443,995)**	**306,005**
Total comprehensive loss for the year	-	-	-	(371,069)	(371,069)
Other comprehensive income	-	-	-	-	-
Total comprehensive Loss for the year	**-**	**-**	**-**	**(371,069)**	**(371,069)**
Balance at 01 April 2018	**250,000**	**500,000**	**750,000**	**(815,063)**	**(65,063)**
Total comprehensive loss for the year	-	-	-	(172,958)	(172,958)
Other comprehensive income	-	-	-	-	-
Total comprehensive Loss for the year	**-**	**-**	**-**	**(172,958)**	**(172,958)**
Balance at 31 March 2019	**250,000**	**500,000**	**750,000**	**(988,021)**	**(238,021)**

Statement of cash flows

Figures in Shillings thousand	Note(s)	2019	2018
Cash flows from operating activities			
Cash (used in)/generated from operations	27	(33,078)	55,357
Finance cost		(167,231)	-
Tax	22	(8)	19,460
Net cash flow from operating activities		**(200,317)**	**74,817**
Cash flows from investing activities			
Purchase of equipment	15	(828)	(379)
Proceeds on sale of equipment	15	49	764
Net cash flow from investing activities		**(779)**	**385**
Cash flows from financing activities			
Impairement of staff advance		(3,242)	-
Other financial liabilities		-	(12,560)
Net cash flow from financing activities		**-**	**(12,560)**
Total cash movement for the year		**(201,096)**	**62,642**
Cash and cash equivalents at the beginning of the year		282,655	220,013
Total cash and cash equivalents at end of the year	21	**81,559**	**282,655**

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Accounting Policies

1. Significant accounting policies

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

1.1 Basis of preparation

The financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these financial statements and the Kenyan Companies Act, 2015.

The financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Kenya shillings (KES), which is the company's functional currency.

These accounting policies are consistent with the previous period.

1.2 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

Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, refer to the individual notes addressing financial assets.

Impairment testing

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When such indicators exist, management determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash generating unit to which the asset belongs.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of 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.

Provisions

Provisions are inherently based on assumptions and estimates using the best information available.

Provisions are recognised in the Statement of Financial Position when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits is required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks appropriate to the liability.

1.3 Equipment

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 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.

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, where appropriate.

Expenditure incurred subsequently for major services, additions to or replacements of parts of equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the company and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the company. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of 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
Computer equipment	Straight line	3 years
Advertising boards	Straight line	10 years

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Accounting Policies

1.3 Equipment (continued)

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.

Each part of an item of equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

Impairment tests are performed on equipment when there is an indicator that they may be impaired. When the carrying amount of an item of equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of 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 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.

1.4 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.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

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1.4 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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

1.5 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 there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

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.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.6 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.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

1.6 Tax (continued)

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.7 Share capital and equity

Ordinary shares are classified as equity.

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 company in which they are declared.

1.8 Borrowing costs

Borrowing costs are amortised over the life of the bond.

1.9 Revenue

Interest income

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

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.

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Revenue (continued)

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

1.10Employee 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.

The company contributes to the National Social Security Fund. This is a defined contribution scheme registered under National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and currently limited to KES 200 per month per employee.

The company's contributions are charged to the statement of profit or loss and other comprehensive income in the year in which they relate. The company has no further obligation once the contributions have been paid.

1.11Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.12Financial instruments

Financial instruments held by the company are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the company, as applicable, are as follows:

Financial assets which are equity instruments:
- Mandatorily at fair value through profit or loss; or
- Designated as at fair value through other comprehensive income. (This designation is not available to equity instruments which are held for trading or which are contingent consideration in a business combination).

Financial assets which are debt instruments:

Financial instruments (continued)

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows).
- Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments).
- Mandatorily at fair value through profit or loss. (This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income); or
- Designated at fair value through profit or loss. (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).

Derivatives which are not part of a hedging relationship:

- Mandatorily at fair value through profit or loss.

Financial liabilities:

- Amortised cost.
- Mandatorily at fair value through profit or loss. (This applies to contingent consideration in a business combination or to liabilities which are held for trading); or
- Designated at fair value through profit or loss. (This classification option can be applied when it eliminates or significantly reduces an accounting mismatch; the liability forms part of a group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss).

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial instruments (continued)

Loans receivable at amortised cost

Classification

Loans to group companies are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the company's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the company becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Impairment

The company recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The company measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the company considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

Significant increase in credit risk

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the company compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

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Financial instruments (continued)

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the company has reasonable and supportable information that demonstrates otherwise.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

Write off policy

The company writes off a loan when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Loans written off may still be subject to enforcement activities under the company recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the loan at the reporting date.

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. Loans are then grouped in such a manner that they share similar credit risk characteristics, such as nature of the loan, external credit ratings (if available), industry of counterparty etc.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the company measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, and vice versa.

An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance (note 9).

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Financial instruments (continued)

Trade and other receivables

Classification

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 19).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the company's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement

Trade and other receivables are recognised when the company becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Trade and other receivables denominated in foreign currencies

When trade and other receivables are denominated in a foreign currency, the carrying amount of the receivables are determined in the foreign currency. The carrying amount is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in other operating gains (losses) (note 9).

Impairment

The company recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The company measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL), which represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

Measurement and recognition of expected credit losses

The company makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The loss allowance is calculated on a collective basis for all trade and other receivables in totality.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account.

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Accounting Policies

Financial instruments (continued)

Write off policy

The company writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the company recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Derecognition

Any gains or losses arising on the derecognition of trade and other receivables is included in profit or loss in the derecognition gains (losses) on financial assets at amortised cost line item.

Trade and other payables

Classification

Trade and other payables (note 25), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

They are recognised when the company becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Trade and other payables denominated in foreign currencies

When trade payables are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to the Shillings equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains (losses).

Cash and cash equivalents

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value.

Financial instruments (continued)

Derecognition

Financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The company derecognises financial liabilities when, and only when, the company obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Reclassification

Financial assets

The company only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated.

The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

1.13 Translation of foreign currencies

Foreign currency transactions

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

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Amendments to IAS 28: Annual Improvements to IFRS 2014 - 2016 cycle

An entity such as a venture capital organisation, mutual fund or similar institution may elect to measure investments in associates or joint ventures at fair value through profit or loss in accordance with IFRS 9 rather than by applying the equity method. The amendment to IAS 28 Investments in Associates and Joint Ventures now specifies that the election must be made separately per associate or joint venture and at the time of initial recognition of such investment.

Further, if an entity is not an investment entity, but has interests in an associate or joint venture which is an investment entity, then the entity may retain the fair value measurement of the associate or joint venture. The amendment now provides that such election must be made separately for each investment entity associate or joint venture.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The company has adopted the amendment for the first time in the 2019 financial statements.

The impact of the amendment is not material.

Amendments to IFRS 1: Annual Improvements to IFRS 2014 - 2016 cycle

The amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards deleted certain short term exemptions concerning disclosures of financial assets, employee benefits and investment entities from IFRS 1.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The company has adopted the amendment for the first time in the 2019 financial statements.

The impact of the amendment is not material.

Amendments to IAS 40: Transfers of Investment Property

The amendment deals specifically with circumstances under which property must be transferred to or from investment property. The amendment now requires that a change in use of property only occurs when the property first meets, or ceases to meet, the definition of investment property and that there is evidence of a change in use. The amendment specifies that a change in management's intentions for use of the property, do not, in isolation, provide evidence of a change in use.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The company has adopted the amendment for the first time in the 2019 financial statements.

The impact of the amendment is not material.

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2. New Standards and Interpretations (continued)

Foreign Currency Transactions and Advance Consideration

The interpretation applies to circumstances when an entity has either paid or received an amount of consideration in advance and in a foreign currency, resulting in a non-monetary asset or liability being recognised. The specific issue addressed by the interpretation is how to determine the date of the transaction for the purposes of determining the exchange rate to use on the initial recognition of the related asset, expense or income when the non-monetary asset or liability is derecognised. The interpretation specifies that the date of the transaction, for purposes of determining the exchange rate to apply, is the date on which the entity initially recognises the non-monetary asset or liability.

The effective date of the interpretation is for years beginning on or after 01 January 2018.

The company has adopted the interpretation for the first time in the 2019 financial statements.

The impact of the interpretation is not material.

Amendments to IFRS 4: Insurance Contracts

The amendment provides a temporary exemption that permits, but does not require, insurers, under specified criteria, to apply IAS 39 Financial Instruments: Recognition and Measurement, rather than IFRS 9 Financial Instruments for annual periods beginning before 1 January 2021. The exemption is only available provided the insurer has not previously applied any version of IFRS 9 (with some exceptions) and that the activities are predominantly connected with insurance.

A further exemption has been provided from IAS 28 Investments in Associates and Joint Ventures. In terms of the exemption, an insurer is exempt from applying uniform accounting policies when applying the equity method, insofar as the IAS 39/IFRS 9 exemption is applied. Thus, the relevant accounting policies of the associate or joint venture are retained if the entity applies the IFRS9/IAS 39 exemption and the associate or joint venture does not apply the exemption, or vice versa.

The amendment further permits, but does not require, insurers to apply the "overlay approach" to designated financial assets when it first applies IFRS 9. The overlay approach requires the entity to reclassify between profit or loss and other comprehensive income, an amount which results in the profit or loss of the designated financial assets at the end of the reporting period being equal to what it would have been had IAS 39 been applied to the designated financial assets.

Additional disclosures are required as a result of the amendment.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The company has adopted the amendment for the first time in the 2019 financial statements.

The impact of the amendment is not material.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendment to IFRS 4 provides a temporary exemption, allowing insurers to apply IAS 39 rather than IFRS 9. The exemption only applies in certain circumstances and only for annual periods beginning before 1 January 2021.

The exemption also introduces an "overlay approach" in specific circumstances. This approach requires the insurer to reclassify an amount between other comprehensive income and profit or loss. This results in the profit or loss for designated financial assets being the same as if the insurer had applied IAS 39 rather than IFRS 9.

2. New Standards and Interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 January 2018.

The company has adopted the amendment for the first time in the 2019 financial statements.

The impact of the amendment is not material.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendment now specifies the treatment of vesting and non-vesting conditions with regards to cash-settled share-based payment transactions. The treatment is essentially similar to the treatment of such conditions for equity-settled share-based payment transactions. That is, non-market vesting conditions are taken into consideration when estimating the number of awards which are expected to vest (and which ultimately vest), while market conditions and other non-vesting conditions are taken into consideration when determining the fair value of the share based payment liability, both initially and subsequently.

The amendment also provides for share-based payment transactions with a net settlement feature for withholding tax obligations. Essentially, where the entity is required to withhold part of the equity instruments equal to the tax obligation, the entity is required to account for the payment to tax authorities as a reduction in equity, except to the extent that the payment exceeds the fair value of the equity instruments withheld at net settlement date. The entity should also disclose the amount that it expects to transfer to tax authorities in terms of such transactions.

The amendment further provides guidance in terms of modifications which convert cash-settled share-based payment transactions to equity -settled share-based payment transactions. For such modifications, the equity-settled share based payment transaction is measured by reference to the fair value of the equity instruments granted at modification date, to the extent to which goods or services have been received. The liability for cash-settled share based payment transactions is derecognised on the modification date. Any difference between the two is recognised immediately in profit or loss.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The company has adopted the amendment for the first time in the 2019 financial statements.

The impact of the amendment is not material.

Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The company has adopted the amendment for the first time in the 2019 financial statements.

The adoption of this amendment has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements.

2. New Standards and Interpretations (continued)

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018.

The company has adopted the standard for the first time in the 2019 financial statements.

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2. New Standards and Interpretations (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 01 January 2018.

The company has adopted the standard for the first time in the 2019 financial statements.

The impact of the standard is not material.

2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 April 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IFRS 17 Insurance Contracts	01 January 2021	Unlikely there will be a material impact
• Plan Amendment, Curtailment or Settlement - Amendments to IAS 19	01 January 2019	Unlikely there will be a material impact
• Long-term Interests in Joint Ventures and Associates - Amendments to IAS 28	01 January 2019	Unlikely there will be a material impact
• Prepayment Features with Negative Compensation - Amendment to IFRS 9	01 January 2019	Unlikely there will be a material impact
• Amendments to IFRS 3 Business Combinations: Annual Improvements to IFRS 2015 - 2017 cycle	01 January 2019	Unlikely there will be a material impact
• Amendments to IFRS 11 Joint Arrangements: Annual Improvements to IFRS 2015 - 2017 cycle	01 January 2019	Unlikely there will be a material impact
• Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 - 2017 cycle	01 January 2019	Unlikely there will be a material impact
• Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 - 2017 cycle	01 January 2019	Unlikely there will be a material impact

2. New Standards and Interpretations (continued)

• Uncertainty over Income Tax Treatments	01 January 2019	Unlikely there will be a material impact
• IFRS 16 Leases	01 January 2019	Unlikely there will be a material impact

3. Changes in accounting policy

The financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Application of IFRS 9 Financial Instruments

In the current year, the company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs. IFRS 9 replaces IAS 39 Financial Instruments and introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the company's financial statements are described below.

The company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 01 April 2018. Accordingly, the company has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 01 April 2018 and has not applied the requirements to instruments that have already been derecognised as at 01 April 2018. Comparatives in relation to instruments that have not been derecognised as at 01 April 2018 have.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The measurement requirements are summarised below:

Loan receivables that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.

Loan receivables that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income.

When a loan receivable measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at fair value through other comprehensive income, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Loan receivables that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to new impairment provisions using an expected loss model. This contrasts the incurred loss model of IAS 39.

3. Changes in accounting policy (continued)

The directors reviewed and assessed the company's existing financial assets as at 01 April 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the company's financial assets as regards to their classification and measurement:

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the company to recognise a loss allowance for expected credit losses on debt investments subsequently measured at amortised cost or at fair value through other comprehensive income, lease receivables, contract assets and loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply. In particular, IFRS 9 requires the company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the company is required to measure the loss allowance for that financial instrument at an amount equal to 12 months expected credit losses. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables in certain circumstances.

As at 01 April 2018, the directors reviewed and assessed the company's existing financial assets, amounts due from customers using reasonable and supportable information that was available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at 01 April 2017 and 01 April 2018.

Classification and measurement of financial liabilities

One major change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the company's financial liabilities.

4. Financial instruments and risk management

Capital risk management

The company's objective when managing capital (which includes share capital, borrowings, working capital and cash and cash equivalents) is to safeguard the company's ability to continue as a going concern in order to maximise stakeholder returns sustainably.

The company manages capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain the capital structure, the company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, repurchase shares currently issued, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or sell assets to reduce debt.

The company monitors capital on the base of the gearing ratio. The gearing ratio is calculated as net borrowings (total borrowings less cash) divided by shareholders' equity.

The company is in breach of its externally imposed capital requirements and discussions with the Trustee and the note holders are underway.

The capital structure and gearing ratio of the company at the reporting date was as follows:

Financial liabilities at fair value	24	1,279,534	1,259,356
Trade and other payables	25	12,816	11,743
Total borrowings		**1,292,350**	**1,271,099**
Cash and cash equivalents	21	(81,559)	(282,655)
Net borrowings		**1,210,791**	**988,444**
Equity		(238,020)	(65,061)
Gearing ratio		(509)%	(1,519)%

4. Financial instruments and risk management (continued)

Financial risk management

Overview

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 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 risk

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 now is the provision of secured 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 to 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.

The maximum exposure to credit risk is presented in the table below:

		2019			2018		
		Gross carrying amount	*Credit loss allowance*	*Amortised cost / fair value*	*Gross carrying amount*	*Credit loss allowance*	*Amortised cost / fair value*
Loans receivable	20	2,812,059	(2,167,453)	644,606	2,842,262	(2,289,448)	552,814
Trade and other receivables	19	15,510	(3,242)	12,268	28,827	-	28,827

4. Financial instruments and risk management (continued)

Cash and cash equivalents	21	81,559	-	81,559	282,655	-	282,655
Net loans and advances to customers		2,813,194	(2,167,453)	645,741	2,842,262	(2,289,448)	552,814
		5,722,322	**(4,338,148)**	**1,384,174**	**5,996,006**	**(4,578,896)**	**1,417,110**

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.

Foreign currency 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. All cash at banks is held with reputable institutions with good credit history that are regulated by the Central Bank of Kenya. At 31 March 2019, there is no significant concentration of credit risk that had not been provided for adequately.

5. Going concern

We draw attention to the fact that at 31 March 2019, the company had accumulated losses of KES '000: (988,021) and that the company's total liabilities exceed its assets by KES '000: (238,021).

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

At the time of preparing the financial statements the company's management remains cautious on its stand-alone 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 through a new partner, continued access to funding, and global and domestic macro events, interest rates, credit or other lending risks.

Notes to the financial statements

Figures in Shillings thousand	2019	2018

5. Going concern (continued)

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;
- Expected outperformance from highly profitable collections as a result of continuous refinements and the setting up of a new tailor-made Recovery Division;
- A concerted effort to attract new equity of KES 600m or more, from a new investor;
- 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 still appropriate to prepare the financial statements on a going concern basis given the assumption that the interventions will prove successful.

6. Revenue

	2019	2018
Interest income	241,308	633,653
Fee income	(5,111)	1,744
	236,197	**635,397**

7. Impairments

	2019	2018
Debtor write offs	4,420	(424,984)
Impairments on advances	121,995	11,040
	126,415	**(413,944)**

8. Other operating income

	2019	2018
Commissions received	1,682	-

9. Operating profit (loss)

Operating profit (loss) for the year is stated after charging the following, amongst others:

	2019	2018
Auditor's remuneration		
Audit fees	2,874	265
Adjustment for previous years	5,981	-
	8,855	**265**
Auditor's remuneration - internal	**1,593**	-

Notes to the financial statements

Figures in Shillings thousand	2019	2018

9. Operating profit (loss) (continued)

Remuneration, other than to employees		
Administrative and managerial services	1,123	1,521
Consulting and professional services	74,701	89,232
Secretarial services	103	594
	75,927	**91,347**

Leases

Operating lease charges		
Premises	18,581	23,041

Depreciation and amortisation		
Depreciation equipment	12,901	27,060
Amortisation of intangible assets	13,729	13,793
Total depreciation and amortisation	**26,630**	**40,853**

Expenses by nature

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

Employee costs	145,776	151,637
Operating lease charges	18,581	23,041
Depreciation, amortisation and impairment	26,630	40,853
Other expenses	151,147	181,723
	342,134	**397,254**

10. Finance cost

Interest expense - 5 year bond	122,559	149,474
Interest expense - 3 year bond	32,515	39,655
Amortisation of issue cost	13,158	13,158
Amortisation of discount	19,181	19,181
Total finance costs	**187,413**	**221,468**

11. Other non-operating (losses)/gains

Impairment of amount due from Tanzania	(4,463)	-
Loans from group companies	(3,242)	-
Bond repurchase	-	27
	(7,705)	**27**

Notes to the financial statements

Figures in Shillings thousand	2019	2018

12. Employee costs

Employee costs		
Basic	106,305	113,008
Commissions	3,789	4,838
Bonus	4,870	-
Medical aid - company contributions	17,720	19,348
Casuals	124	348
NSSF	247	287
Leave pay provision charge	33	1,941
Relocation costs	723	1,624
Staff welfare	3,650	3,109
Training	1,020	735
Recruitment	1,570	7
Retirement benefit plans	5,725	6,395
Termination benefits	-	(3)
	145,776	**151,637**

Average number of persons employed during the year		
Sales and marketing	69	81
Call centre	12	17
Credit	-	1
Executive	1	2
Finance	4	4
Head Office and administration	6	7
Human resources	2	2
Information technology	1	1
Legal	1	1
Vetting	2	2
	98	**118**

Notes to the financial statements

Figures in Shillings thousand	2019	2018

13. Directors' emoluments

2019

	Directors' fees	*Total*
YM Godo	325	325
TM Karanja	1,800	1,800
CH Kocks	1,150	1,150
EN Ndemo	2,000	2,000
BH Pieters	1,800	1,800
	7,075	**7,075**

2018

	Directors' fees	*Total*
TM Karanja	450	450
CH Kocks	881	881
EN Ndemo	438	438
BH Pieters	1,035	1,035
N Mule	237	237
AKJ Ruturi	311	311
	3,352	**3,352**

14. Taxation

Major components of the tax income

	2019	2018
Current		
Overprovision in prior years	-	(26,173)

Reconciliation of the tax expense

Reconciliation between accounting profit and tax expense.

	2019	2018
Accounting loss	(172,958)	(397,242)
Tax at the applicable tax rate of 30% (2018: 30%)	(51,887)	(119,173)
Tax effect of adjustments on taxable income		
Income not subject to tax	(79)	(229)
Income taxed separately	-	(8)
Deferred tax not recognised	(6,054)	52,473
Overprovision in prior years	-	(26,173)
Expenses not deductible for tax purposes	58,020	66,937
	-	**(26,173)**

*Thin capitalisation rules apply to Real People Kenya Limited and as a consequence, the interest on the bond is disallowed for tax purposes.

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Notes to the financial statements

Figures in Shillings thousand	2019	2018

15. Equipment

	2019			2018		
	Cost or revaluation	*Accumulated depreciation*	*Carrying value*	*Cost or revaluation*	*Accumulated depreciation*	*Carrying value*
Furniture and fixtures	57,793	(42,500)	15,293	58,711	(35,768)	22,943
Office equipment	11,964	(11,150)	814	12,007	(10,317)	1,690
Computer software	68,289	(67,373)	916	68,283	(63,771)	4,512
Total	**138,046**	**(121,023)**	**17,023**	**139,001**	**(109,856)**	**29,145**

Reconciliation of equipment - 2019

	Opening balance	*Additions*	*Disposals*	*Depreciation*	*Total*
Furniture and fixtures	22,943	-	(42)	(7,608)	15,293
Office equipment	1,690	106	(7)	(975)	814
Computer software	4,512	722	-	(4,318)	916
	29,145	**828**	**(49)**	**(12,901)**	**17,023**

Reconciliation of equipment - 2018

	Opening balance	*Additions*	*Disposals*	*Other changes, movements*	*Depreciation*	*Total*
Furniture and fixtures	36,514	-	(3,283)	(1,366)	(8,922)	22,943
Office equipment	4,012	-	(483)	154	(1,993)	1,690
Computer software	21,009	379	-	(731)	(16,145)	4,512
	61,535	**379**	**(3,766)**	**(1,943)**	**(27,060)**	**29,145**

Other information

	2019	2018
Fully depreciated property, plant and equipment still in use	89,989	36,231

16. Intangible assets

	2019			2018		
	Cost / Valuation	*Accumulated amortisation*	*Carrying value*	*Cost / Valuation*	*Accumulated amortisation*	*Carrying value*
Computer software	62,556	(42,813)	19,743	62,556	(29,084)	33,472

Reconciliation of intangible assets - 2019

	Opening balance	*Amortisation*	*Total*
Computer software	33,472	(13,729)	19,743

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Notes to the financial statements

Figures in Shillings thousand	2019	2018

16. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	*Other changes, movements*	*Amortisation*	*Total*
Computer software	45,487	1,778	(13,793)	33,472

17. Deferred tax

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Unrecognised deferred tax asset

	2019	2018
Equipment	7,997	6,875
Provisions for leave days	1,681	2,013
Provisions on loans and advances	528,675	565,273
Tax losses	89,763	60,518
Unrealised exchange differences	(4)	379
Provision for bonus	892	-
	629,004	**635,058**

18. Current tax receivable

The financial statements indicate that the company recognised an amount refundable from the Kenya Revenue Authority of KES 279m for prior years overpayments of taxes. The refund claim has been filed with the Kenya Revenue Authority and the Kenya Revenue Authority is currently reviewing the documentation.

	2019	2018
Composition of balance		
Overpaid taxes 2014	36,795	36,795
Overpaid taxes 2015	96,610	96,610
Overpaid taxes 2016	71,401	71,401
Assessed refund 2016	67,019	67,019
Withholding tax	7,307	7,299
	279,132	**279,124**

19. Trade and other receivables

	2019	2018
Financial instruments:		
Receivables and prepayments	8,225	21,780
Staff advances	4,340	3,780
Staff advance - Loss allowance: 100%	(3,242)	-
Trade receivables at amortised cost	9,323	25,560
Deposits	2,945	3,267
	12,268	**28,827**

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Notes to the financial statements

Figures in Shillings thousand	2019	2018

19. Loans and advances to customers (continued)

Split between non-current and current portions

Current assets	12,268	28,827

Categorisation of trade and other receivables

Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:

At amortised cost	12,268	-

Exposure to credit risk

Trade receivables inherently expose the company to credit risk, being the risk that the company will incur financial loss if customers fail to make payments as they fall due.

The company's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles. The loss allowance provision is determined as follows:

The directors are of the opinion that the carrying amount of trade and other receivables approximate their fair value.

20. Loans and advances to customers

Loans receivable are presented at amortised cost, which is net of loss allowance, as follows:

	2019	2018
Performing advances	651,241	574,453
Non-performing advances	2,160,818	2,267,809
Provision for impairment	(2,167,453)	(2,289,448)
	644,606	**552,814**

Split between non-current and current portions

Current assets	644,606	552,814

Exposure to credit risk

Loans receivable inherently exposes the company to credit risk, being the risk that the company will incur financial loss if counterparties fail to make payments as they fall due.

Loans receivable are subject to the impairment provisions of IFRS 9 Financial Instruments, which requires a loss allowance to be recognised for all exposures to credit risk. The loss allowance for loans receivable is calculated based on twelve month expected losses if the credit risk has not increased significantly since initial recognition. In cases where the credit risk has increased significantly since initial recognition, the loss allowance is calculated based on lifetime expected credit losses. The loss allowance is updated to either twelve month or lifetime expected credit losses at each reporting date based on changes in the credit risk since initial recognition. If a loan is considered to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition. On the other hand, if a loan is in arrears more than 90 days, then it is assumed that there has been a significant increase in credit risk since initial recognition.

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Figures in Shillings thousand	2019	2018

20. Loans and advances to customers (continued)

In determining the amount of expected credit losses, the company has taken into account any historic default experience, the financial positions of the counterparties as well as the future prospects in the industries in which the counterparties operate or are employed. This information has been obtained from the counterparties themselves, as well as from economic reports, financial analyst reports and various external sources of actual and forecast data and is applied to estimate a probability of default occurring as well as estimating the loss upon default.

The estimation techniques explained have been applied for the first time in the current financial period, which is the first time the company has applied IFRS 9. Loans receivable were previously impaired only when there was objective evidence that the loan was impaired. The impairment was previously calculated as the difference between the carrying amount and the present value of the expected future cash flows

The maximum exposure to credit risk is the gross carrying amount of the loans as presented below.

Reconciliation of loss allowances

The following tables show the movement in the loss allowances for loans receivable. The movement in the gross carrying amounts of the loans are also presented in order to assist in the explanation of movements in the loss allowance.

Provision for impaired loans and advances

	2019	2018
Changes due to loan recognised at the beginning of the reporting period:		
At the beginning of the year	(2,289,448)	(1,895,285)
Reversal/(additional) provision during the year	122,145	11,040
Specific provisions/written off	(150)	(405,203)
	(2,167,453)	**(2,289,448)**

Non-performing advances: Loss allowance measured at lifetime ECL (credit impaired):

	2019	2018
Performing loan 0: 0.95% (2018: 3.60%)	**6,883**	**23,987**
Performing loan 1: 0.06% (2018: 42.70%)	63	6,105
Performing loan 2: 0.06% (2018: 57.81%)	34	3,876
Performing loan 3: 66.60% (2018: 66.60%)	2,474	4,240
Non-performing loan: 94.16% (2018: 89.77%)	51,990	145,375
Non-performing loan write off: 100% (2018: 100%)	2,210,389	2,105,865
Reversed induplum impaired in prior years	(104,380)	-
Closing balance	**2,167,453**	**2,289,448**

Fair value of loans receivable

The directors are of the opinion that the carrying amounts of loans receivable approximates their fair value.

21. Cash and cash equivalents

Cash and cash equivalents consist of:

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Figures in Shillings thousand	2019	2018

21. Cash and cash equivalents (continued)

Cash on hand	308	172
Bank balances	81,251	282,483
	81,559	**282,655**

Exposure to currency risk

Shilling amount		
Kenya Shilling	80,739	277,833
US Dollar	124	1,027
South African Rand	696	3,795
	81,559	**282,655**

22. Tax paid

Balance at beginning of the year	279,124	251,217
Current tax for the year recognised in profit or loss	-	26,173
Movement in current tax receivable	8	21,194
Balance at end of the year	(279,132)	(279,124)
	-	**19,460**

23. Share capital

Authorised		
2,500,000 Ordinary shares of KES 100 each	250,000	250,000
Issued		
Ordinary	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 KES 200 per share resulting in a share premium reserve of KES 500m.

24. Other financial liabilities

At amortised cost		
Medium Term Notes	1,279,534	1,259,356

Details of movement

Medium-term note 5 years	1,012,470	994,824
Medium-term note 3 years	267,100	265,587
Note issue costs	(17,543)	(30,701)
Note interest payable	17,507	29,646
	1,279,534	**1,259,356**

At a meeting of note holders held on 10 December 2018, the note holders by means of extraordinary resolution resolved that:

Notes to the financial statements

Figures in Shillings thousand	2019	2018

24. Other financial liabilities (continued)

- The maturity dates of the 13.65% 3 year fixed rate notes due on 06 January 2019 be extended to 03 August 2019;
- The interest on all of the notes be restructured from a fixed rate of interest to a floating rate of interest that is based on the yield on the 91 day treasury bills plus 1% compounded half yearly subject to a minimum rate of 7% and a maximum rate of 10%;
- Subject to the issuer securing an agreement with an investor or investors whose identity or identities shall be approved by noteholders holding 75% of the notes:
  - the final maturity dates for all the notes be extended to 03 August 2028;
  - the interest shall be paid on and determined on certain dates as set out in the deed of variation and consistent with the manner in which the interest is currently paid and determined; and
  - the notes shall be redeemed at their face value in four equal tranches on 01 August 2022, 29 July 2024, 27 July 2026 and 24 July 2028.

The issuer has not secured an agreement with an investor or investors.

25. Trade and other payables

	2019	2018
Financial instruments:		
Trade payables	440	277
Trade payables - related parties	-	1,138
Accrued leave pay	5,603	6,706
Accrued bonus	2,974	-
Accrued expenses	479	687
Salary control accounts	3,321	2,936
	12,817	**11,744**

The directors are of the opinion that the carrying amount of trade and other payables approximate their fair value.

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Notes to the financial statements

26. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities - 2019

	Opening balance	*Discount amortised*	*Issue cost amortised*	*Change in interest payable*	*Total non-cash movements*	*Closing balance*
5 year bond	994,824	17,663	-	-	17,663	1,012,487
3 year bond	265,587	1,517	-	-	1,517	267,104
Note issue costs	(30,701)	-	13,157	-	13,157	(17,544)
Note interest payable	29,646	-	-	(12,159)	(12,159)	17,487
	1,259,356	**19,180**	**13,157**	**(12,159)**	**20,178**	**1,279,534**

Reconciliation of liabilities arising from financing activities - 2018

	Opening balance	*Discount amortised*	*Issue cost amortised*	*Interest payable*	*Adjustment*	*Total non-cash movements*	*Cash flows*	*Closing balance*
5 year bond	958,559	17,648	-	-	18,617	36,265	-	994,824
3 year bond	261,538	4,549	-	-	-	4,549	(500)	265,587
Loan from DMC Debt Management (Pty) Ltd	9,284	-	-	-	-	-	(9,284)	-
Note issue costs	(28,421)	-	13,157	-	(15,437)	(2,280)	-	(30,701)
Note interest payable	24,805	-	-	4,841	-	4,841	-	29,646
	1,225,765	**22,197**	**13,157**	**4,841**	**3,180**	**43,375**	**(9,784)**	**1,259,356**
Total liabilities from financing activities	**1,225,765**	**22,197**	**13,157**	**4,841**	**3,180**	**43,375**	**(9,784)**	**1,259,356**

Notes to the financial statements

27. Cash (used in)/generated from operations

Loss before taxation	(172,958)	(397,242)
Adjustments for:		
Depreciation and amortisation	26,630	40,853
Interest cost	155,074	-
Amortisation of discount	19,180	-
Amortisation of issue cost	13,157	-
Changes in working capital:		
Trade and other receivables	16,559	26,351
Loans and advances to customers	(91,793)	394,163
Net advances	-	(2,080)
Trade and other payables	1,073	(6,688)
	(33,078)	**55,357**

28. Related parties

Relationships

Ultimate shareholder	The GVR Trust
Holding company	Real People Holdings International Limited
Previously related company	DMC Debt Management (Pty) Ltd
Previously related company	Real People Home Finance (Pty) Ltd

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties		
DMC Debt Management (Pty) Ltd	-	(931)
Real People Home Finance (Pty) Ltd	-	(208)

Related party transactions

Interest paid to related parties		
DMC Debt Management (Pty) Ltd	-	210
Fees paid to related parties		
DMC Debt Management (Pty) Ltd	-	10,446
Real People Home Finance (Pty) Ltd	-	919
Compensation to directors and other key management		
Short-term employee benefits	9,967	3,277

29. Commitments

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	14,973	13,825
- in second to fifth year inclusive	7,691	28,008
	22,664	**41,833**

Operating lease payments represent rentals payable by the company for certain of its office properties.

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