Real People Kenya Limited

(Registration number C. 3/2015)

Financial statements

for the year ended 31 March 2018

General information

Country of incorporation and domicile	Kenya
Nature of business and principal activities	Provision of credit to small business owners
Company registration number	C. 3/2015
Registered office	L.R. No 209/6871 International Life House Mama Ngina Street Nairobi
Auditors	BDO East Africa 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 Registered in South Africa

Contents

Audit Committee Report

This report is provided by the audit committee appointed in respect of the 2018 financial year of Real People Kenya Limited. The audit committee is a sub-committee of the board of directors of the company. The report includes both these set of duties and responsibilities.

1. External auditor

The committee satisfied itself through enquiry that the external auditors are independent as defined by the Kenyan Companies Act 2015 and as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided in compliance with the requirements of the Kenyan Companies Act 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.

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.

Audit Committee Report

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

25 July 2018

Statement of Directors' Responsibilities

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 error.

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

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

Approved by the board of directors on 25 July 2018 and signed on its behalf by:

YM Godo

CH Kocks

Report of the Directors

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	*2018*	*2017*
Loss before taxation	(397,241)	(642,933)
Tax (charge) / credit	26,173	51,230
Loss for the year transferred to retained earnings	**(371,068)**	**(591,703)**

The financial year ended on a disappointing note for the company as a result of a poor operating performance in Kenya. The company recorded a loss after tax of KES 371 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

Loan impairment provisions

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

The business increased the emergence period on performing loans from one to three months, and increased the loss identification period from three to twelve months. A poor operating environment has resulted in an increase in defaults, resulting in higher impairment charges during the year.

Deferred tax assets

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

3. Events after the reporting period

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

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

4. Authorised and issued share capital

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

5. Dividends

The board of directors do not recommend the declaration of a dividend for the 2018 year (2017 - Nil).

Report of the Directors

6. Directors

Directors	*Office*	*Designation*	*Nationality*	*Changes*
N Grobbelaar	Group MD	Executive	South African	Resigned 08 January 2018
YM Godo	Chief Operating Officer	Executive	Kenyan	
AKJ Ruturi	Director	Non-executive	Kenyan	Resigned 28 July 2017
CH Kocks	Chief Executive Officer	Executive	South African	
N Mule	Director	Non-executive	Kenyan	Resigned 28 July 2017
A Padachie	Director	Non-executive	South African	Appointed 22 June 2017, resigned 08 January 2018
BH Pieters	Director	Non-executive	South African	Appointed 02 August 2017
EN Ndemo	Director	Non-executive	Kenyan	Appointed 08 January 2018
TM Karanja	Director	Non-executive	Kenyan	Appointed 08 January 2018

7. Secretary

The company secretary is Cornelius Kimamo Kigera.

Postal address: PO Box 10643-00100
Nairobi

8. Terms of appointment of the auditor

BDO East Africa Kenya was appointed as the company's auditor during the year in accordance with the company's Articles of Association and the provisions of the Kenyan Companies Act 2015.

9. Shareholding

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

10. Going concern

Having made an assessment of the company's ability to continue as a going concern as set out in more detail within the audit committee report and note 24, the directors are of the opinion, based on intended discussions with creditors and the possibility of increased funding wherein it will be assisted by external advisers, that the company will continue in operational existence for the foreseeable future providing that the support of bond holders and providers of new equity proceed as planned. There is as yet no certainty in this regard.

By Order of the Board

EN Ndemo
Chairperson
25 July 2018

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 10 to 35, which comprise the Statement of Financial Position as at 31 March 2018, 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 that the company has incurred losses of KES 371m for the year ended 31 March 2018 and has accumulated losses of KES 815m as at 31 March 2018 and, as of that date, the company's current liabilities exceeded its total assets by KES 65m. These events or conditions, along with other matters as set forth in note 24, 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 Company has a financial liability that matures in August 2018. 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 2018. The Company is in negotiations with all the bond holders to convert them into share capital.

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 and we have read the other information and, in doing so, considered whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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 Kenyan 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 our audit;
- in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books;
- 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; and
- the information in the directors' report are consistent with the financial statements.

BDO East Africa Kenya

BDO EAST AFRICA Certified Public Accountants KENYA

BDO East Africa Kenya
Certified Public Accountants of Kenya
Sameer Business Park
Block C, Unit C1
Mombasa Road
P.O Box 10032-00100 GPO
Nairobi, Kenya

Clifford Ah Chip
Signing partner and engagement partner responsible for the independent audit
CPA, Practicing Registration Number P/1964.
Date: 31 July 2018

Statement of financial position as at 31 March 2018

Figures in Kenya Shillings thousand (KES '000)	Note(s)	2018	2017
Assets			
Non-Current Assets			
Property, plant and equipment	10	29,145	61,535
Intangible assets	11	33,472	45,487
Current Assets			
Trade and other receivables	13	28,827	26,583
Current tax receivable	14	279,124	251,217
Net advances	15	552,814	944,897
Cash and cash equivalents	16	282,655	220,012
Total Assets		**1,206,037**	**1,549,731**
Equity and Liabilities			
Equity			
Share capital	18	750,000	750,000
Accumulated loss		(815,063)	(443,995)
Total Equity		**(65,063)**	**306,005**
Liabilities			
Non-Current Liabilities			
Other financial liabilities	20	964,123	1,191,676
Current Liabilities			
Trade and other payables	19	11,744	17,961
Other financial liabilities	20	295,233	34,089
Total Liabilities		**306,977**	**52,050**
Total Liabilities		**1,271,100**	**1,243,726**
Total Equity and Liabilities		**1,206,037**	**1,549,731**

The financial statements and the notes on pages 6 to 35, were approved by the board of directors on 25 July 2018 and were signed on its behalf by:

YM Godo

CH Kocks

Statement of profit or loss and other comprehensive income

Figures in Kenya Shillings thousand (KES '000)	Note(s)	2018	2017
Revenue	2	635,397	1,122,993
Impairments on loans and advances	3	(413,944)	(929,972)
Other operating expenses	6	(397,254)	(565,251)
		(175,801)	**(372,230)**
Finance costs	5	(221,467)	(300,636)
Other non-operating gains (losses)	4	27	29,933
Loss before taxation		**(397,241)**	**(642,933)**
Tax (charge)/credit	9	26,173	51,230
Loss for the year		**(371,068)**	**(591,703)**
Total comprehensive loss for the year		**(371,068)**	**(591,703)**

Statement of changes in equity

Figures in Kenya Shillings thousand (KES '000)	Share capital	Share premium	Total share capital	Accumulated loss	Total equity
Balance at 01 April 2016	**250,000**	**500,000**	**750,000**	**147,708**	**897,708**
Total comprehensive loss for the year	-	-	-	(591,703)	(591,703)
Balance at 01 April 2017	**250,000**	**500,000**	**750,000**	**(443,995)**	**306,005**
Total comprehensive loss for the year	-	-	-	(371,068)	(371,068)
Balance at 31 March 2018	**250,000**	**500,000**	**750,000**	**(815,063)**	**(65,063)**
Note(s)	18	18	18		

Statement of cash flows

Figures in Kenya Shillings thousand (KES '000)	Note(s)	2018	2017
Cash flows from operating activities			
Cash generated from operations	21	40,632	556,342
Tax paid	17	19,460	(273,102)
Net cash flows generated from/(used in) operating activities		**60,092**	**283,240**
Cash flows from investing activities			
Purchase of equipment	10	(379)	(1,109)
Proceeds on sale of equipment		764	5,836
Purchase of other intangible assets	11	-	(8,796)
Net cash flows used in investing activities		**385**	**(4,069)**
Cash flows from financing activities			
Repayment of other financial liabilities	20	(12,560)	-
Net cash flows (used in)/generated from financing activities		**(12,560)**	**(442,560)**
Total cash movement for the year		**47,917**	**(163,389)**
Cash and cash equivalents at the beginning of the year		220,012	383,401
Total cash and cash equivalents at end of the year	16	**267,929**	**220,012**

Accounting policies

1. Significant accounting policies

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

These accounting policies are consistent with those applied during the previous period.

1.1 Revenue recognition

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.

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

1.2 Tax

Current tax assets and liabilities

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

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

Accounting policies

1.3 Translation of foreign currencies

Foreign currency transactions

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

1.4 Property, plant and equipment

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

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

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

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

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

Item	*Depreciation method*	*Average useful life*
Furniture and fixtures	Straight line	6 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
Computer equipment	Straight line	3 years
Advertising boards	Straight line	10 years
Leasehold improvements	Straight line	6 years

1.4 Investments in associates (continued)

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

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

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

1.5 Intangible assets

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

1.6 Impairment of assets

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

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

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

1.7 Financial instruments

Initial recognition and measurement

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

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

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

Subsequent measurement

1.7 Financial instruments (continued)

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

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

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

Loans from group companies

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

Net advances

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

Impairment of financial assets

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

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

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

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

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

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

1.7 Financial instruments (continued)

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Cash and cash equivalents

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

Trade and other payables

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

1.8 Share capital and equity

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

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity.

Dividends are recognised as a liability in the year in which they are declared.

1.9 Borrowing costs

Borrowing costs are amortised over the life of the bond.

Accounting policies

1.10 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

1.11 New accounting standards and interpretations

Standards, Amendments to published Standards and Interpretations effective in the reporting period
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:

- *Disclosure Initiative (Amendments to IAS7)*
  The amendments require an entity to provide disclosure that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. Apart from the additional disclosures, the application of these amendments has no impact on the financial statements.

- *Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses*
  The amendment clarifies how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference. The application of the amendment has no impact on the financial statements as the company has already assessed the sufficiency of future taxable profits in a way that is consistent with these amendments.

- *Annual improvements to IFRSs 2014-2016 cycle (Amendments to IFRS 12 Disclosure of other interest in other entities*
  IFRS 12 states that an entity need not provide summarized financial information for interest in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interest). The amendment has no effect on the company.

1.11 New accounting standards and interpretations (continued)

Standards, Amendments to published Standards and Interpretations issued but not yet effective
The following standards and interpretations have been published and are mandatory for the Company's accounting periods beginning on or after 01 March 2018 or later periods but which the Company has not early adopted:

Relevant new and amended standards in issue but not yet effective in the year ended 31 March 2018.

New standards and amendments to standards	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
Annual Improvements to IFRSs 2014–2016 Cycle	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

Where relevant, the Company is still evaluating the effect of these Standards, amendments to published Standards and Interpretations issued but not yet effective, on the presentation of its financial statements.

1.12 Significant judgements and sources of estimation uncertainty

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

Critical judgements in applying accounting policies

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

Key sources of estimation uncertainty

Loans and advances

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

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

Accounting policies

1.12 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment

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

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

1.13 Comparatives

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

Notes to the financial statements

Figures in Kenya Shillings thousand (KES '000)	2018	2017
2. Revenue		
Interest income	633,653	1,030,763
Fee income	1,744	92,230
	635,397	**1,122,993**
3. Impairments of loans and advances		
Impairments of loans and advances	11,040	(929,972)
Debtors write offs	(424,984)	-
	(413,944)	**(929,972)**
4. Other non-operating gains (losses)		
Bond repurchase	27	29,933
	27	**29,933**
5. Finance costs		
Interest on loan (related Company)	210	36,885
Interest on bonds	221,257	263,751
Total finance costs	**221,467**	**300,636**

6. Loss before taxation

The loss for the year is stated after charging (crediting) the following, amongst others:

	2018	2017
Auditor's remuneration - external		
Audit fees	265	4,116
Administrative and managerial services	1,521	253
Consulting and professional services	89,232	38,790
Secretarial services	594	(628)
	91,347	**38,415**
Employee costs	151,918	293,031
Leases		
Premises	23,041	30,517
Depreciation and amortisation		
Depreciation of property, plant and equipment	27,060	32,418
Amortisation of intangible assets	13,793	12,778
Total depreciation and amortisation	**40,853**	**45,196**

Expenses by nature

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

Notes to the financial statements

Figures in Kenya Shillings thousand (KES '000)	2018	2017

6. Loss before taxation (continued)

Employee costs	151,918	293,031
Operating lease charges	23,041	30,517
Depreciation, amortisation and impairment	40,853	45,196
Other expenses	181,723	196,507
	397,535	**565,251**

7. Employee cost

Basic	113,008	196,511
Commissions	4,838	1,966
Medical aid - company contributions	19,348	27,708
Casual wages	348	1,156
NSSF	287	415
Leave pay provision charge	803	5,904
Relocation costs	1,624	1,353
Staff welfare	3,109	17,066
Training	735	1,146
Recruitment	7	668
Retirement benefit plans	6,395	8,669
Termination benefits	1,135	30,469
	151,637	**293,031**

Average number of persons employed during the year was:

Sales and marketing	81	105
Call centre	17	15
Credit	1	1
Executive	2	2
Finance	4	4
Head office and administration	7	13
Human resource	2	4
Information technology	1	2
Legal	1	2
Vetting	2	4
	118	**152**

Figures in Kenya Shillings thousand (KES '000) 2018 2017

8. Directors' emoluments

2018

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

2017

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

Figures in Kenya Shillings thousand (KES '000)	2018	2017

9. Taxation

Major components of the tax expense/(credit)

	2018	2017
Current		
Income tax - current period	-	85,288
Overprovision in prior years	(26,173)	-
	(26,173)	**85,288**
Deferred		
Originating and reversing temporary differences	-	136,518
	(26,173)	**(51,230)**

Reconciliation of the tax expense/(credit)

Reconciliation between accounting profit and tax expense.

	2018	2017
Accounting loss	(397,241)	(642,933)
Tax at the applicable tax rate of 30% (2017: 30%)	(119,172)	(192,880)
Tax effect of adjustments on taxable income		
Income not subject to tax	(229)	-
Income taxed separately	(8)	-
Prior year impairment of current tax receivable and deferred tax asset	-	141,650
Deferred tax effect not recognised	52,472	-
Overprovision in prior years	(26,173)	-
Expenses not deductible for tax purposes*	66,937	-
	(26,173)	**(51,230)**

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

10. Property, plant and equipment

	2018			2017		
	Cost or revaluation	*Accumulated depreciation*	*Carrying value*	*Cost or revaluation*	*Accumulated depreciation*	*Carrying value*
Furniture and fixtures	58,711	(35,768)	22,943	68,061	(31,547)	36,514
Office equipment	12,007	(10,317)	1,690	14,762	(10,750)	4,012
Computer equipment	68,283	(63,771)	4,512	70,208	(49,199)	21,009
Total	**139,001**	**(109,856)**	**29,145**	**153,031**	**(91,496)**	**61,535**

Figures in Kenya Shillings thousand (KES '000)

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	*Additions*	*Disposals*	*Other 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 equipment	21,009	379	-	(731)	(16,145)	4,512
	61,535	**379**	**(3,766)**	**(1,943)**	**(27,060)**	**29,145**

Reconciliation of property, plant and equipment - 2017

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

Other information

	2018	2017
Fully depreciated property, plant and equipment still in use	36,231	31,013

11. Intangible assets

	2018			2017		
	Cost	*Accumulated amortisation*	*Carrying value*	*Cost*	*Accumulated amortisation*	*Carrying value*
Computer software	62,556	(29,084)	33,472	62,556	(17,069)	45,487

Reconciliation of intangible assets - 2018

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

Reconciliation of intangible assets - 2017

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

Notes to the financial statements

Figures in Kenya Shillings thousand (KES '000)	2018	2017

12. Deferred tax

Unrecognised deferred tax asset

Property, plant and equipment	6,875	1,340
Provisions for leave days	2,013	1,771
Provisions on loans and advances to customers	565,273	568,585
Tax losses	60,518	9,967
Unrealised exchange difference	379	-
	635,058	**581,663**

13. Trade and other receivables

Receivables and prepayments	21,780	12,449
Deposits	3,267	6,659
Staff advances	3,780	7,475
	28,827	**26,583**

Split between non-current and current portions

Non-current assets	-	55,004
Current assets	28,827	55,004
	28,827	**110,008**

14. 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 as at the date of this report, it is uncertain when the matter will be settled as this date is contingent upon the completion of an audit by the Kenya Revenue Authority.

Composition of balance

Overpaid taxes 2014	36,795	9,191
Overpaid taxes 2015	96,610	96,610
Overpaid taxes 2016	71,401	71,334
Assessed refund 2016	67,019	67,019
Withholding tax	7,299	7,063
Total	**279,124**	**251,217**

15. Loans and advances to customers

Performing advances	574,453	906,924
Non-performing advances	2,267,809	1,933,258
Provision for impairment	(2,289,448)	(1,895,285)
At the end of the year	**552,814**	**944,897**

Provision for impaired loans and advances		
At beginning of the year	(1,895,285)	(1,024,059)
Reversal/(additional) provision during the year	11,040	(871,226)
Specific provisions / written off	(405,203)	-
At the end of the year	**(2,289,448)**	**(1,895,285)**

Notes to the financial statements

Figures in Kenya Shillings thousand (KES '000)	2018	2017

15. Loans and advances to customers (continued)

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

The company's credit risk arises primarily from loans and advances. There is no concentration of credit risk.

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

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

Loans and advances to customers have been written down to their recoverable amount. Non-performing loans and advances on which provisions for impairment have been recognised amount to KES 2,267m (2017: KES 1,933m). These are included in the statement of financial position net of provisions at KES 16m (2017: KES 208m).

A specific provision for bad debt has been booked during the year for KES 405m (2017: nil).

16. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018	2017
Cash on hand	172	5,278
Bank balances	282,483	214,734
	282,655	**220,012**
Kenyan shilling	277,833	219,833
US dollar	1,027	(8)
South African rand	3,795	187
	282,655	**220,012**

17. Tax paid

	2018	2017
Balance at beginning of the year	251,217	63,403
Current tax for the year recognised in profit or loss	26,173	(85,288)
Movement in current tax receivable	21,194	-
Balance at end of the year	(279,124)	(251,217)
Tax paid during the year	**19,460**	**(273,102)**

Figures in Kenya Shillings thousand (KES '000)	2018	2017

18. Share capital

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

The issued and paid up ordinary shares were issued at a premium of KES 200 per share resulting in a share premium reserve of KES 500m.

19. Trade and other payables

Trade payables	277	(5)
Amounts due to related parties	1,138	-
Accrued leave pay	6,706	5,904
Accrued expenses	687	6,123
Salary control accounts	2,936	5,939
	11,744	**17,961**

20. Other financial liabilities

Medium-term note 5 years	994,824	958,559
Medium-term note 3 years	265,587	261,538
Bond issue costs	(30,701)	(28,421)
Loan from DMC Debt Management (Pty) Ltd (Related party)	-	9,284
Bond interest payable	29,646	24,805
	1,259,356	**1,225,765**

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

There is no certainty that the 3-year bond will be repaid in full in August 2018. The company is in negotiations with the holders of all bonds for conversion of the bonds to equity, which implies no repayment of a material size in August 2018

The loan from DMC Debt Management (Pty) Ltd loan was unsecured and had no specific date of repayment. The loan is denominated in South African rands. Interest was payable at 16% (2017: 16%). The loan had no fixed date of maturity and was settled in June 2017.

Current liabilities		
At amortised cost	295,233	34,089
Non-current liabilities		
At amortised cost	964,123	1,191,676
	1,259,356	**1,225,765**

Figures in Kenya Shillings thousand (KES '000) 2018 2017

20. Other financial liabilities (continued)

Changes in liabilities arising from financing activities

Movement of liabilities arising from financing activities - 2018

	Opening balance	*Discount amortised*	*Adjustment to accumulated amortised amount*	*Interest payable*	*Repayment*	*Closing balance*
5 year bond	958,559	17,648	18,617	-	-	994,824
3 year bond	261,538	4,549	-	-	(500)	265,587
Loan from DMC Debt Management (Pty) Ltd	9,284	-	-	-	(9,284)	-
Bond issue costs	(28,421)	13,157	(15,437)	-	-	(30,701)
Bond interest payable	24,805	-	-	4,841	-	29,646
	1,225,765	**35,354**	**3,180**	**4,841**	**(9,784)**	**1,259,356**

Movement of liabilities arising from financing activities - 2017

	Opening balance	*Discount amortised*	*Interest payable*	*Repayment*	*Closing balance*
5 year bond	1,294,668	(8,209)	-	(327,900)	958,559
3 year bond	256,992	4,546	-	-	261,538
Loan from DMC Debt Management (Pty) Ltd	451,844	-	-	(442,560)	9,284
Bond issue costs	(57,972)	29,551	-	-	(28,421)
Bond interest payable	-	-	24,805	-	24,805
	1,945,532	**25,888**	**24,805**	**(770,460)**	**1,225,765**

21. Cash generated from operations

	2018	2017
Loss before taxation	(397,241)	(642,933)
Adjustments for:		
Depreciation and amortisation	40,853	45,196
Gains on disposals	-	(177)
Other non-cash items	-	(33,735)
Changes in working capital:		
Trade and other receivables	11,625	56,016
Loans and advances to customers	394,163	1,140,184
Net advances	(2,080)	-
Trade and other payables	(6,688)	(8,209)
	40,632	**556,342**

22. Related parties

Relationships

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

Figures in Kenya Shillings thousand (KES '000)	2018	2017

22. Related parties (continued)

Related party balances

	2018	2017
Loan accounts - Owing to related parties		
DMC Debt Management (Pty) Limited	-	(9,284)
Amounts included in Trade Payables regarding related parties		
DMC Debt Management (Pty) Limited	(931)	-
Real People Home Finance (Pty) Limited	(208)	-

Related party transactions

	2018	2017
Interest paid to related parties		
DMC Debt Management (Pty) Limited	210	36,885
Fees paid to related parties		
DMC Debt Management (Pty) Limited	10,446	24,427
Real People Home Finance (Pty) Limited	919	-

23. Risk management

Capital management

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

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying asset. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistently with others in the industry, the company monitors capital on the basis of the gearing ratio.

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

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

The gearing ratio is as follows:

	2018	2017
Borrowings	1,320,857	1,282,606
Cash and cash equivalents	282,655	220,012
Net debt	977,689	1,034,173
Total equity	(57,052)	306,005
Gearing ratio	Nil	0,29

Financial risk management

Figures in Kenya Shillings thousand (KES '000)

23. Risk management (continued)

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 committee - The credit committee is responsible for the management of credit risk for net advances.

Liquidity risk

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

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

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

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

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

2018	*Up to 1 year*	*From 1 to 2 years*	*From 2 to 5 years*	*Total*
Cash and bank	282,655	-	-	282,655
Loans and advances	552,814	-	-	552,814
Borrowings	(295,233)	(964,123)	-	(1,259,356)
Net liquidity gap	**540,236**	**(964,123)**	**-**	**(423,887)**

Figures in Kenya Shillings thousand (KES '000)

23. Risk management (continued)

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

Interest rate risk

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

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

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

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.

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

	2018	2017
Net loans and advances to customers	552,814	944,897
Bank balances	282,655	220,012

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Notes to the financial statements

Figures in Kenya Shillings thousand (KES '000)	2018	2017

23. Risk management (continued)

	2018	2017
Neither past-due nor impaired	574,453	906,924
Past-due but not impaired	161,943	539,120
Impaired	2,105,866	1,394,138
Gross advances	**2,842,262**	**2,840,182**
Less: allowances for impairment	(2,289,448)	(1,895,285)
Net advances	**552,814**	**944,897**

Foreign exchange risk

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

The company is exposed to foreign exchange risk arising from various currency exposures. 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 2018, there is no significant concentration of credit risk that had not been provided for adequately.

24. Going concern

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

The accumulated losses for the 2018 financial year amount to KES 815m (2017: KES 444m).

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 current bond conversion and a new partner, continued access to funding, and global and domestic macro events, interest rates, credit or other lending risks.

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

- Strategic intervention by experienced turnaround and restructuring specialists;
- Introduction of new, experienced Kenyan top management within the short term;

24. Going concern (continued)

- Increased collections from the non-performing portions of the debtors' book, already evidenced since the start of the 2018 financial year;
- Expected outperformance from highly profitable collections as a result of continuous refinements and the setting up of a new tailor-made Recovery Division;
- The introduction of a new simplified short-term product which is expected to increase new business and promote additional growth;
- Engagement with and interactions with current bond holders to convert a material portion of the face value of issued bonds to equity, which will decrease the liability as well as the interest expense;
- 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.

25. Commitments

Operating leases – as lessee (expense)

	2018	2017
Minimum lease payments due		
- within one year	13,825	19,209
- in second to fifth year inclusive	28,008	37,161
	41,833	**56,370**

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

26. Currency

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