

Home Afrika Limited

Annual Report and Consolidated Statements

For the year ended 31 December 2018



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COMPANY INFORMATION

| | |
|------------------------------------|---|
| BOARD OF DIRECTORS | : Linus Gitahi : Peter Nduati : Rachel Mbai : Dan Ochieng Awendo : Mbugua Gecaga : Ketan Shah : Caroline Jebet Kigen |
| REGISTERED OFFICE | : Cooperative Bank Registrars Services : CIC Plaza, Upper Hill, Wing 2, 1st Floor : P.O. Box 48231, 00100 : NAIROBI |
| PRINCIPAL PLACE OF BUSINESS | : Morningside Office Park : Ngong Road : P.O. Box 6254, 00100 : NAIROBI |
| INDEPENDENT AUDITOR | : PKF Kenya : Certified Public Accountants : P.O. Box 14077, 00800 : NAIROBI |
| PRINCIPAL BANKERS | : Kenya Commercial Bank Limited : NAIROBI : I&M Bank Limited : NAIROBI : Cooperative Bank (Kenya) Limited : NAIROBI : Eco Bank Kenya Limited : NAIROBI : Equity Bank Kenya Limited : NAIROBI |
| LEGAL ADVISORS | : Muriu Mungai & Company Advocates : NAIROBI : Wainaina Ireri & Co. Advocates : NAIROBI : Robson Harris & Company Advocates : NAIROBI |

COMPANY INFORMATION (CONTINUED)

| | | |
|---------------------|---|---------------------------------------|
| SUBSIDIARIES | : | Home Afrika Communities Limited |
| | : | NAIROBI |
| | : | Mitini Scapes Development Limited |
| | : | NAIROBI |
| | : | Migaa Management Limited |
| | : | NAIROBI |
| | : | Lake View Heights Development Limited |
| | : | NAIROBI |
| | : | Llango Development Limited |
| | : | NAIROBI |
| | : | Kikwetu Development Limited |
| | : | NAIROBI |
| | : | Kivuli Golf Limited |
| | : | NAIROBI |
| | : | Suburban Limited |
| | : | NAIROBI |

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of the group and the company.

PRINCIPAL ACTIVITY

The principal activity of the group is that of real estate development in housing and commercial properties.

BUSINESS REVIEW

During the year 2018 the total turnover of the group decreased from Shs. 262,787,539 to Shs. 109,038,521. This is attributed to there being no revenue recognised from developments of services arising from the percentage of completion remaining unchanged compared to the previous year. The loss before tax increased from Shs. 221,014,550 to Shs. 391,904,755.

As at 31 December 2018, the net liability position of the group was Shs. 1,052,370,177 compared to Shs. 677,870,862 as at 31 December 2017.

| Key performance indicators | Group | | Company | |
|--------------------------------|------------------------|----------------------|----------------------|-------------------|
| | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs |
| Turnover (Shs) | 109,038,521 | 262,787,539 | 15,181,000 | - |
| Gross profit (Shs) | 26,757,483 | 33,781,079 | 6,122,272 | - |
| Gross profit margin (%) | 25% | 13% | 40% | - |
| Operating loss | (231,227,263) | (132,742,452) | (115,231,405) | (96,387,617) |
| (Loss) for the year (Shs) | (346,205,088) | (181,435,212) | (130,115,287) | (135,696,089) |
| Net (liabilities)/assets (Shs) | <u>(1,052,370,177)</u> | <u>(677,870,862)</u> | <u>(891,189,566)</u> | <u>31,411,156</u> |

PRINCIPAL RISKS AND UNCERTAINTIES

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

In addition to the business risk(s) discussed above, the company's activities expose it to a number of financial risks which are described in detail in Note 29 to the financial statements.

DIVIDEND

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

DIRECTORS

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

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

REPORT OF THE DIRECTORS (CONTINUED)

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

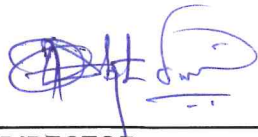
With respect to each director at the time this report was approved:

- (a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and
- (b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information

TERMS OF APPOINTMENT OF THE AUDITOR

PKF Kenya continues in office in accordance with the company's Articles of Association and Section 719 the Kenyan Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of auditor's appointment and the related fees.

BY ORDER OF THE BOARD



DIRECTOR

30 July 2019

DIRECTORS' REMUNERATION REPORT

INTRODUCTION

The members of the Board Nomination & Remuneration Committee (BNRC) during the year were, Rachel Mbai (Committee Chairperson), Linus Wangombe Gitahi, Caroline Kigen and Dan Awendo (Managing Director). All members except Dan Awendo are Non-Executive Directors.

The Schedule of attendance of BNRC meetings held during the year were as follows: -

| <u>Nomination & Remuneration Committee</u> | | | | | | Total Meetings Attended |
|--|------------|--------|--------|-----------|-------|----------------------------|
| | 24- Jan | 20-Apr | 26-Jul | 9- Aug | 8-Nov | |
| Rachel Mbai - Chairpeson | ✓ | ✓ | ✓ | ✓ | ✓ | 5 |
| Linus Gitahi | ✓ | ✓ | ✓ | ✓ | ✓ | 5 |
| Caroline Kigen | ✓ | ✓ | ✓ | x | ✓ | 4 |
| Dan Awendo | ✓ | ✓ | ✓ | ✓ | ✓ | 5 |

KEY

| | |
|---|---------|
| ✓ | Present |
| x | Absent |

The BNRC's responsibilities have been set by the Board and are outlined in the Board Charter and the Committee's terms of reference. The BNRC takes into account the need to recruit and retain valuable Directors in a challenging market environment.

The BNRC believes that the Company complies with the main provisions of the Code of Corporate Governance for public listed companies. The Company is presenting the existing remuneration policy in this report. In subsequent reports, the Company will be required to seek a vote on the Remuneration policy where the policy is changed (or an advisory vote on the implementation is not passed).

The Directors' remuneration report is unaudited except where otherwise stated.

Regulatory Changes

The regulatory landscape in Kenya has witnessed a number of changes that have had an impact on the remuneration of Directors and the associated reporting.

In March 2016, the Capital Markets Authority ("CMA") issued the Capital Markets Code for Issuers of Securities ("The Code") which became operational after a year. The Code has outlined various compliance requirements in relation to Directors' Remuneration.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

The new Companies Act 2015 was enacted in September 2015 and became operational in June 2016. According to the new Act, the Company is required to table a Directors' Remuneration Report to its shareholders as part of its audited financial statements.

The Board has adopted a Board Charter and aligned it with the provisions of the Code and the new Companies Act. The Board Charter outlines a guideline on the Directors' Remuneration and Expense Policy.

Remuneration for Non-Executive Directors

The Company's Non-Executive Directors' (NEDs) were issued with Directors' Service Contracts in compliance with the requirements of the new Act. These are contracts for service and not contracts for employment. The NEDs are compensated in the form of meeting attendance fees but are not entitled to any pension, bonus or long-term incentive plans

Remuneration for Managing Directors

In order to remain an attractive employer, the Group ("Home Afrika") annually reviews its competitiveness against prevailing market practices.

In 2017, The Company adjusted Salaries for inflation by 7% for the year 2018. The remuneration for the Managing Director was reviewed by the Board Nomination and Remuneration Committee in line with the contract for employment and the internal performance structure.

The Managing Director's terms of employment were within the Companies HR policies.

Link to Strategy

The 2016 to 2018 Strategic plan which intends to transform the group to profitability.

Home Afrika's aim is to achieve an integrated approach to reward, linking Company strategy in the form of the achievement of corporate objectives and individual performance to salary increases and bonus awards.

The major objective of the Group remuneration policy is to ensure that there is a clear link between each employee's individual level of performance and their reward. These, along with other factors such as market positioning and the overall reward budget, go into the annual salary and bonus review process for all employees including the executive team.

This ensures that a coordinated and consistent approach is taken - encouraging and supporting a high-performance culture whilst ensuring fairness and transparency across the Group.

Pension entitlements

Only the Managing Director is entitled to participate in the Group's Pension Plan. Participation is restricted to defined monthly contributions that are applicable to permanent employees within the Group. The company is yet to adopt this.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Share options and long-term incentive scheme

The Directors are not entitled to any share option arrangement or long term share incentive schemes.

Payments to past Directors

There was no payment of Directors' fees to past directors during the year.

Audit part of the report:

The following table shows a single figure remuneration for the Executive Director, Chairman and Non-Executive Directors in respect of qualifying services for the year ended 31 December 2018 together with the comparative figures for 2017 for Home Afrika Group.

a) Home Afrika Limited

| Year ended 31 December 2018 | | | |
|-----------------------------|---------------------------|-------------------|-------------------------|
| # | Name | Salary | Meeting attendance fees |
| | | Shs. | Shs. |
| 1 | Linus Gitahi -Chairperson | - | 500,000 |
| 2 | Ketan Shah | - | 300,000 |
| 3 | Mbugua Gecaga | - | 350,000 |
| 4 | Rachel Mbai | - | 500,000 |
| 5 | Caroline Kigen | - | 450,000 |
| 6 | Peter Nduati | - | 450,000 |
| 7 | Dan Awendo | 18,448,800 | - |
| | TOTAL | 18,448,800 | 2,550,000 |

| Year ended 31 December 2017 | | | |
|-----------------------------|---------------------------|-------------------|-------------------------|
| # | Name | Salary | Meeting attendance fees |
| | | Shs. | Shs. |
| 1 | Linus Gitahi -Chairperson | - | 425,000 |
| 2 | Ketan Shah | - | 350,000 |
| 3 | Mbugua Gecaga | - | 350,000 |
| 4 | Rachel Mbai | - | 350,000 |
| 5 | Caroline Kigen | - | 400,000 |
| 6 | Peter Nduati | - | 350,000 |
| 7 | Dan Awendo | 16,740,000 | 250,000 |
| | TOTAL | 16,740,000 | 2,475,000 |

DIRECTORS' REMUNERATION REPORT (CONTINUED)**b) Mitini Scares Development Limited**

| Year Ended 31 December 2018 | | | | |
|------------------------------------|------------------------------|---------------|--------------------------------|----------------|
| # | Name | Salary | Meeting Attendance fees | Total |
| | | | Shs. | Shs. |
| 1 | Boniface Kamau - Chairperson | - | 225,000 | 225,000 |
| 2 | Susan Kasinga | - | - | - |
| 3 | Geoffrey Kamau | - | 100,000 | 100,000 |
| 4 | Jack Waihenya | - | 150,000 | 150,000 |
| 5 | Barth Ragalo | - | 50,000 | 50,000 |
| 6 | Connie Gakonyo | - | - | - |
| 7 | Mbugua Gecaga | - | 150,000 | 150,000 |
| 8 | Winnie Ngumi | - | 100,000 | 100,000 |
| | TOTAL | - | 775,000 | 775,000 |

| Year Ended 31 December 2017 | | | | |
|------------------------------------|------------------------------|---------------|--------------------------------|------------------|
| # | Name | Salary | Meeting Attendance fees | Total |
| | | | Shs. | Shs. |
| 1 | Boniface Kamau - Chairperson | - | 300,000 | 300,000 |
| 2 | Susan Kasinga | - | - | - |
| 3 | Geoffrey Kamau | - | 150,000 | 150,000 |
| 4 | Jack Waihenya | - | 150,000 | 150,000 |
| 5 | Barth Ragalo | - | 75,000 | 75,000 |
| 6 | Connie Gakonyo | - | - | - |
| 7 | Mbugua Gecaga | - | 225,000 | 225,000 |
| 8 | Winnie Ngumi | - | 150,000 | 150,000 |
| | TOTAL | - | 1,050,000 | 1,050,000 |

DIRECTORS' REMUNERATION REPORT (CONTINUED)

c) Home Afrika Communities Limited

| Year Ended 31 December 2018 | | | | |
|------------------------------------|--------------------------------|--------|-------------------------|------------------|
| # | Name | Salary | Meeting Attendance fees | Total |
| | | | Shs. | Shs. |
| 1 | Mike Robert Karanja - Chairman | - | 1,300,000 | 1,300,000 |
| 2 | Robert Muchoki | - | 2,543,570 | 2,543,570 |
| 3 | Stephen Gichohi | - | 450,000 | 450,000 |
| 4 | Linus Gitahi | - | 450,000 | 450,000 |
| 5 | Anne Muchoki | - | 2,800,000 | 2,800,000 |
| 6 | Michael Matimu | - | 450,000 | 450,000 |
| 7 | Eng Mbugua Kamau | - | 714,286 | 714,286 |
| 8 | Dan Awendo | - | 75,000 | 75,000 |
| | TOTAL | - | 8,782,856 | 8,782,856 |

| Year Ended 31 December 2017 | | | | |
|------------------------------------|--------------------------------|--------|-------------------------|------------------|
| # | Name | Salary | Meeting Attendance fees | Total |
| | | | Shs. | Shs. |
| 1 | Mike Robert Karanja - Chairman | - | 1,265,000 | 1,265,000 |
| 2 | Robert Muchoki | - | 950,000 | 950,000 |
| 3 | Stephen Gichohi | - | 910,000 | 910,000 |
| 4 | Dan Awendo | - | 950,000 | 950,000 |
| 5 | Linus Gitahi | - | 900,000 | 900,000 |
| 6 | Anne Muchoki | - | 1,000,000 | 1,000,000 |
| 7 | Michael Matimu | - | 1,025,000 | 1,025,000 |
| | TOTAL | - | 7,000,000 | 7,000,000 |

DIRECTORS' REMUNERATION REPORT (CONTINUED)**d) Suburban Limited**

| Year Ended 31 December 2018 | | | | | |
|-----------------------------|-------------------------------|--------|--------------|------------|-----------|
| # | Name | Salary | Meeting fees | Attendance | Total |
| | | | | Shs. | Shs. |
| 1 | Dr. Mbira Gikonyo-Chairperson | - | | 542,857 | 542,857 |
| 2 | Dan Awendo | - | | 342,857 | 342,857 |
| 3 | Geoffrey Luseno | - | | 542,857 | 542,857 |
| | TOTAL | | | 1,428,571 | 1,428,571 |

| Year Ended 31 December 2017 | | | | | |
|-----------------------------|-------------------------------|--------|--------------|------------|---------|
| # | Name | Salary | Meeting fees | Attendance | Total |
| | | | | Shs. | Shs. |
| 1 | Dr. Mbira Gikonyo-Chairperson | - | | 214,286 | 214,286 |
| 2 | Dan Awendo | - | | 214,286 | 214,286 |
| 3 | Geoffrey Luseno | - | | 214,286 | 214,286 |
| | TOTAL | | | 642,858 | 642,858 |

This section of the Remuneration Report describes the current policy for Directors' remuneration. It can be summarized as follows:-

a) Managing Director**Base Salary:**

Purpose/Link to Corporate: Part of a basic competitive package to retain individuals of the necessary caliber to execute the Company's business strategy

Operation: The Managing Director is entitled to a Salary & Director's fees on the main board meetings. No separate Directors' fees are paid. The salary is reviewed annually in line with the Company's Human Resources plan.

Opportunity: Salary reviews are based on market comparisons and increases to other Group staff. Increases in Managing Director salary is aligned to the average staff increase in the Group.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Pension:

| | |
|------------------------------|---|
| Purpose / Link to Corporate: | To provide Directors with a long-term savings opportunity; the pension forms part of a basic competitive package to recruit and retain. |
| Strategy Operation: | A Defined Contribution plan for all Managing Directors. |
| Opportunity: | Company contribution as percentage of basic salary up to 7.5%. |

Benefits

| | |
|------------------------------|---|
| Purpose / Link to Corporate: | Insured benefits are included to provide employee protection for the benefit of the employee and Company |
| Strategy Operation: | Insured benefits provided as part of Group schemes. |
| Opportunity: | Group Medical Insurance Group Life Assurance Critical illness cover Club membership for business and personal use. |

Annual Bonus Plan

| | |
|------------------------------|--|
| Purpose / Link to Corporate: | The bonus payment is implemented in accordance with an approved Compensation Philosophy for the period 2016 to 2018. |
| Strategy: | The objective is to incentivize and focus attention on Company KPIs; to reward the achievement of financial, operational and individual targets and provide a competitive performance-related annual earnings opportunity. |
| Operation: | <p>Profitability Target making up 50% of the bonus. The bonus will be calculated as 5% of net profit after tax for profits up to the amount of profit that was targeted and approved at the beginning of the year. For any profits over and above the profits that were targeted and approved at the beginning of the year, 25% of net profit after tax will be payable into the management bonus pool;</p> <p>Share Value Target making up the balance 50% of the bonus will be at 2% of the differential between company market capitalization between financial year periods. Base price is value per share as at Jan 1st 2017; and</p> <p>The above bonus pools will subsequently be shared amongst management and staff subject to performance criteria established by management year on year. Performance criteria will be based on: -</p> <p>Meeting of KPIs; and Longevity of stay in the company participating in attaining the results s.</p> |
| Opportunity: | The Managing Director's terms of employment were within the Companies HR policies. |

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Performance Metrics: Company element based on challenging corporate, operational and financial KPIs. Measures, targets and weightings are set in respect of each financial year.

Personal elements based on performance measures set each financial year relevant to the individual's role and accountabilities. Details of the corporate performance measures applicable in the current financial year are contained in the Group Variable Pay pay-out policy. All bonus payments are at the discretion of the Board.

Executive Share Option Plans

The Company has not introduced Executive Share Option Plans. No plan has been recommended for the next financial year.

b) Non-Executive Directors Meeting attendance fees

Purpose / Link to Corporate: Competitive fee to recruit and retain.

Strategy Operation: The NED fee is a meeting attendance fee that is paid quarterly in arrears.

Opportunity: Fees are determined in accordance with market practice. The Remuneration Committee recommends the fees payable to the Chairman and other NEDs.

- Meeting attendance fees applies to attendance at Board meetings, Annual General Meeting, Board Committee meetings, Strategic Planning Workshop and Board Training Workshops;
- The fee structure will pay the Board Chair and the Board Committee Chairs a higher meeting attendance fee than that paid to other Directors in attendance.
- Directors attending out-of-country Board meetings will be entitled to receive an additional allowance.
- No additional fees/allowances will be paid over and above the retainer and meeting attendance fees

Performance Metrics: None

Performance Share plan

The Company has not introduced any Executive and Non-Executive Performance Share plans.

Other Key Policies influencing Directors' Remuneration

a) Recruitment policy

The Company's philosophy is that all Managing Directors should be remunerated at an appropriate level based on Home Afrika's remuneration policy and taking into account the experience and caliber of the individual. Managing directors are entitled to a salary and Main board meeting attendance fees and not the meeting attendance fees on other committees

DIRECTORS' REMUNERATION REPORT (CONTINUED)

A new non- Managing Director will be entitled to the applicable meeting attendance fees as per the existing compensation schedule on sitting allowance.

b) Policy on payment for loss of office

The Managing Director's employment contract provides for a maximum of 12 months' notice.

On termination of an Managing Director's service contract, the Company's policy is to pay the salary and benefits to which the executive is contractually entitled. There is no contractual entitlement to receive any bonus but depending on the circumstances, the Company may decide to make a bonus payment in respect of the period up to the termination date. It is not the Company's policy to make payments in respect of bonus if the Company is entitled to dismiss a Director for cause.

The letters of appointment for Non-Executive Directors do not provide for any notice period. However, the appointment ceases immediately upon termination by resignation, a resolution of the Board or shareholders and no further remuneration accrues to the Director thereafter.

c) Obligations in Service contracts

There are no obligations to individuals in Directors' Service contracts or Letter of Employment which give rise to entitlement beyond that described in the policy table and the policy on payment for loss of office.

d) Discretions retained by the Remuneration Committee

The Company does not operate any long-term incentive plan such as Share Option Plan, Share Performance plan, e.t.c. Accordingly, there no areas of discretion to disclose.

The BNRC and the Board feel confident that the remuneration policy continues to be appropriate for the Company and will support the implementation of the Group's short term and long-term objectives.

The regulations relating to the Directors' Remuneration Report were gazetted on 15 September 2017. The BNRC plans to develop a Remuneration policy that addresses the requirements set out in the regulations.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors accept responsibility for the preparation and fair presentation of there financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

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

The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the group and of the company as at 31 December 2018 and of the group's and company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

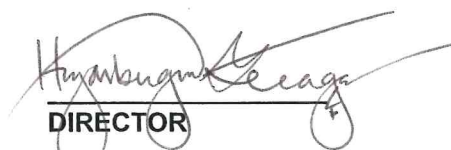
In preparing these financial statements the directors have assessed the group's and company's ability to continue as a going concern as set out in Note 1(a) to the financial statements. The directors are of the opinion that the group and its subsidiaries will remain a going concern for at least the next twelve months from the date of this statement based on the factors described in Note 1(a).

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 30 July 2019 signed on its behalf by :



DIRECTOR



DIRECTOR

**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF HOME AFRIKA LIMITED**

Disclaimer of Opinion

We were engaged to audit the financial statements of Home Afrika Limited (the "company") and its subsidiaries (collectively referred to as the "consolidated financial statements and "group") set out on pages 17 to 61, which comprise the consolidated and company statements of financial position as at 31 December 2018, and the consolidated and company statement of profit or loss and other comprehensive income, consolidated and company statement of changes in equity and consolidated and company statement of cash flows for the year then ended, and notes to the consolidated and company financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

The following matters form our basis for disclaimer of opinion:

- (i) The financial statements indicate that the group incurred a net loss of Shs. 346,205,088 for the year ended 31 December 2018, and as of that date, the group had net current liabilities of Shs. 1,732,502,368 and a deficiency in shareholders funds of Shs. 1,052,370,177. These conditions indicate that a material uncertainty exists which may cast significant doubt on the group's ability to continue as a going concern. The directors have prepared these financial statements on a going concern basis as described in Note 1. We have not obtained sufficient appropriate audit evidence in respect of the basis and assumptions used by the directors to prepare the financial statements on a going concern basis as the discussions and negotiations with existing lenders and prospective investors as well as transactions related to sale of inventories have not been concluded as of the date of our audit opinion. As a result we were unable to conclude whether the use of the going concern assumption is appropriate and, where applicable, to determine whether any adjustments might have been found necessary to the amounts reported in the financial statements should the going concern basis not be appropriate.
- (ii) As described in note 12 to the financial statements, residential apartment blocks being constructed carried under inventories at a value of Shs. 1.043 billion was a subject of repossession by a bank as collateral to a loan facility. The bank was unsuccessful in its attempts to realise this collateral through auction. We were unable to obtain sufficient appropriate audit evidence on any likely impairment that needs to be recognised in the financial statements in respect of this inventory.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Because of the significance of the matters described in the basis for disclaimer of opinion section, and our consequential disclaimer of opinion, we have not reported on these.

**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF HOME AFRIKA LIMITED (CONTINUED)**

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of the consolidated and company financial statements that give a true and fair view in accordance with IFRSs 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 consolidated and company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and company financial statements, the directors are responsible for assessing the Group's and 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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Company 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 not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

As required by the Kenyan Companies Act, 2015, we report to you that subject to the matters referred to in the basis for disclaimer of opinion section of our report on page 15:

- the company and group has kept adequate accounting records and the company's and group's financial statements are in agreement with the accounting records;
- in our opinion the information given in the report of the directors on pages 3 to 4 is consistent with the financial statements; and
- that the auditable part of the directors remuneration report on pages 5 to 13 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

PKF Kenya.

**Certified Public Accountants
Nairobi**

30-07- 2019

**CPA Chaudhry Mohammed Asif, Practicing Certificate No P/2059
Signing Partner Responsible for the independent audit**

1122/19

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | 2018 Shs | 2017 Shs |
|--|-------|-----------------------------|-----------------------------|
| Revenue from contracts with customers | 3 | 109,038,521 | 262,787,539 |
| Cost of sales | | <u>(82,281,038)</u> | <u>(229,006,460)</u> |
| Gross profit | | 26,757,483 | 33,781,079 |
| Fair value gain on investment property | 11 | - | 60,828,808 |
| Other operating income | 4 | 7,857,784 | 9,921,547 |
| Selling and distribution expenses | | (13,081,028) | (38,682,386) |
| Administrative expenses | | (222,994,367) | (169,053,774) |
| Other operating expenses | | <u>(29,767,135)</u> | <u>(29,537,726)</u> |
| Operating (loss) | 5 | (231,227,263) | (132,742,452) |
| Finance costs | 7 | <u>(160,677,492)</u> | <u>(88,272,098)</u> |
| (Loss) before tax | | (391,904,755) | (221,014,550) |
| Tax credit | 8 | <u>45,699,667</u> | <u>39,579,338</u> |
| (Loss) for the year | | <u><u>(346,205,088)</u></u> | <u><u>(181,435,212)</u></u> |
| Total comprehensive (loss) for the year | | <u><u>(346,205,088)</u></u> | <u><u>(181,435,212)</u></u> |
| (Loss) attributable to: | | | |
| - Owners of the parent | | (276,019,820) | (179,786,896) |
| - Non-controlling interest | | <u>(70,185,268)</u> | <u>(1,648,316)</u> |
| | | <u><u>(346,205,088)</u></u> | <u><u>(181,435,212)</u></u> |
| (Loss) per share (Shs) | | | |
| - basic and diluted | 9 | <u><u>(0.68)</u></u> | <u><u>(0.44)</u></u> |

The notes on pages 25 to 61 form an integral part of these financial statements.

Report of the independent auditor - pages 15 and 16.

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | 2018 Shs | 2017 Shs |
|--|-------|-----------------------------|-----------------------------|
| Revenue from contracts with customers | 3 | 15,181,000 | - |
| Cost of sales | | <u>(9,058,728)</u> | <u>-</u> |
| Gross profit | | 6,122,272 | - |
| Other operating income | 4 | 810,000 | 5,628,763 |
| Selling and distribution | | (4,451,990) | (9,684,617) |
| Administrative expenses | | (108,256,763) | (83,050,685) |
| Other operating expenses | | <u>(9,454,924)</u> | <u>(9,281,078)</u> |
| Operating (loss) | 5 | (115,231,405) | (96,387,617) |
| Finance costs | 7 | <u>(14,259,243)</u> | <u>(38,242,987)</u> |
| (Loss) before tax | | (129,490,648) | (134,630,604) |
| Tax charge | 8 | <u>(624,639)</u> | <u>(1,065,485)</u> |
| (Loss) for the year | | <u><u>(130,115,287)</u></u> | <u><u>(135,696,089)</u></u> |
| Total comprehensive (loss) for the year | | <u><u>(130,115,287)</u></u> | <u><u>(135,696,089)</u></u> |
| (Loss) per share | | | |
| - Basic | 9 | <u><u>(0.32)</u></u> | <u><u>(0.33)</u></u> |


The notes on pages 25 to 61 form an integral part of these financial statements.

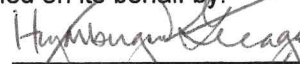
Report of the independent auditor - pages 15 and 16.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | | As at 31 December | |
|---|-------|------------------------|----------------------------|----------------------------|
| | Notes | 2018 Shs | 2017 Shs (Restated)* | 2016 Shs (Restated)* |
| Non-current assets | | | | |
| Property and equipment | 10 | 53,055,372 | 57,830,177 | 61,234,418 |
| Investment property | 11 | 624,504,231 | 623,180,335 | 685,622,528 |
| Intangible assets | 12 | 2,570,588 | - | 218,540 |
| Financial assets | 14 | 2,000 | 2,000 | 2,000 |
| | | <u>680,132,191</u> | <u>681,012,512</u> | <u>747,077,486</u> |
| Current assets | | | | |
| Assets classified as held-for-sale | | - | - | 41,500,000 |
| Inventories | 15 | 3,742,984,754 | 3,697,729,045 | 3,068,296,691 |
| Trade and other receivables | 16 | 70,007,183 | 79,446,156 | 65,150,396 |
| Cash and cash equivalents | 17 | 9,338,188 | 19,640,279 | 7,986,209 |
| | | <u>3,822,330,125</u> | <u>3,796,815,480</u> | <u>3,182,933,296</u> |
| Total assets | | <u>4,502,462,316</u> | <u>4,477,827,992</u> | <u>3,930,010,782</u> |
| Current liabilities | | | | |
| Deferred income | 18 | 998,427,582 | 936,785,104 | 919,126,518 |
| Trade and other payables | 19 | 1,440,783,140 | 1,363,793,163 | 934,270,329 |
| Deposit from sale of plots and units | 19 | 1,632,533,384 | 1,418,897,759 | 1,096,076,016 |
| Borrowings | 20 | 803,049,894 | 707,024,803 | 679,706,916 |
| Private placement bond | 21 | 500,000,000 | 494,182,715 | 488,418,287 |
| Deposit for shares | 22 | 174,808,522 | 182,588,522 | 111,334,998 |
| Current tax | | 5,229,971 | 5,549,214 | 10,440,395 |
| | | <u>5,554,832,493</u> | <u>5,108,821,280</u> | <u>4,239,373,459</u> |
| Net current (liabilities) | | <u>(1,732,502,368)</u> | <u>(1,312,005,800)</u> | <u>(1,056,440,163)</u> |
| Non-current liabilities | | | | |
| Deposit for shares | | - | - | 96,253,550 |
| Borrowings | | - | - | 7,388,962 |
| Deferred tax | 23 | - | 46,877,574 | 83,430,461 |
| | | <u>-</u> | <u>46,877,574</u> | <u>187,072,973</u> |
| Total liabilities | | <u>5,554,832,493</u> | <u>5,155,698,854</u> | <u>4,426,446,432</u> |
| Net (liabilities) | | <u>(1,052,370,177)</u> | <u>(677,870,862)</u> | <u>(496,435,650)</u> |
| EQUITY | | | | |
| Share capital | 24 | 405,255,320 | 405,255,320 | 405,255,320 |
| Share premium | 25 | 68,842,038 | 68,842,038 | 68,842,038 |
| Accumulated deficit | | <u>(1,364,757,535)</u> | <u>(1,060,443,488)</u> | <u>(880,656,592)</u> |
| Equity attributed to owners of the company | | <u>(890,660,177)</u> | <u>(586,346,130)</u> | <u>(406,559,234)</u> |
| Non-controlling interest | | <u>(161,710,000)</u> | <u>(91,524,732)</u> | <u>(89,876,416)</u> |
| Total equity | | <u>(1,052,370,177)</u> | <u>(677,870,862)</u> | <u>(496,435,650)</u> |

The financial statements on pages 17 to 61 were approved and authorised for issue by the Board of Directors on 30 July 2019 and were signed on its behalf by:

 DIRECTOR

 DIRECTOR

The notes on pages 25 to 61 form an integral part of these financial statements.

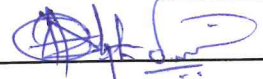
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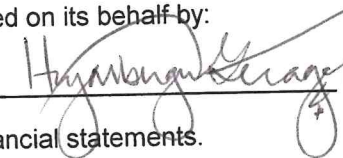
*Refer to note 33 to the financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

| | | As at 31 December | |
|--------------------------------------|-------|------------------------|----------------------|
| | Notes | 2018 Shs | 2017 Shs |
| Non-current assets | | | |
| Property and equipment | 10 | 56,309,192 | 58,822,977 |
| Intangible assets | 12 | 2,570,588 | - |
| Investment in subsidiaries | 13 | 76,986,247 | 76,986,247 |
| Financial assets | 14 | 2,000 | 2,000 |
| Trade and other receivables | 17 | - | 577,566,021 |
| Deferred tax | 23 | - | 624,639 |
| | | <u>135,868,027</u> | <u>714,001,884</u> |
| Current assets | | | |
| Inventories | 15 | 186,535,767 | 315,794,495 |
| Trade and other receivables | 16 | 31,637,488 | 249,061,952 |
| Cash and cash equivalents | 17 | 2,771,118 | 10,118,445 |
| | | <u>220,944,373</u> | <u>574,974,892</u> |
| Total assets | | <u>356,812,400</u> | <u>1,288,976,776</u> |
| Current liabilities | | | |
| Trade and other payables | 19 | 533,441,584 | 600,924,728 |
| Deposit from sale of plots and units | 19 | 214,287,801 | 161,947,501 |
| Private placement bond | 21 | 500,000,000 | 494,182,715 |
| Current tax | | 272,581 | 510,676 |
| | | <u>1,248,001,966</u> | <u>1,257,565,620</u> |
| Net current (liabilities) | | <u>(1,027,057,593)</u> | <u>(682,590,728)</u> |
| Net assets | | <u>(891,189,566)</u> | <u>31,411,156</u> |
| EQUITY | | | |
| Share capital | 24 | 405,255,320 | 405,255,320 |
| Share premium | 25 | 68,842,038 | 68,842,038 |
| Accumulated deficit | | (1,365,286,924) | (442,686,202) |
| Total equity | | <u>(891,189,566)</u> | <u>31,411,156</u> |

The financial statements on pages 17 to 61 were approved and authorised for issue by the Board of Directors on 30 July 2019 and were signed on its behalf by:

 DIRECTOR

 DIRECTOR

The notes on pages 25 to 61 form an integral part of these financial statements.

Report of the independent auditor - pages 15 and 16.

Home Afrika Limited
Annual report and consolidated financial statements
For the year ended 31 December 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital Shs | Share premium Shs | Retained earnings Shs | Total Shs | Non controlling interests Shs | Total equity Shs |
|--|----------------------|----------------------|--------------------------|----------------------|----------------------------------|------------------------|
| Year ended 31 December 2017 | | | | | | |
| At start of year - as previously stated | 405,255,320 | 68,842,038 | (708,895,539) | (234,798,181) | 24,630,953 | (210,167,228) |
| Prior year adjustment | - | - | (171,761,053) | (171,761,053) | (114,507,369) | (286,268,422) |
| - Provision for other liabilities (Note 33) | | | | | | |
| At start of year - as restated | 405,255,320 | 68,842,038 | (880,656,592) | (406,559,234) | (89,876,416) | (496,435,650) |
| Total comprehensive (loss) for the year | - | - | (179,786,896) | (179,786,896) | (1,648,316) | (181,435,212) |
| At end of year | <u>405,255,320</u> | <u>68,842,038</u> | <u>(1,060,443,488)</u> | <u>(586,346,130)</u> | <u>(91,524,732)</u> | <u>(677,870,862)</u> |
| Year ended 31 December 2018 | | | | | | |
| At start of year - as previously stated | 405,255,320 | 68,842,038 | (888,682,435) | (414,585,077) | 22,982,637 | (391,602,440) |
| Prior year adjustment | - | - | (171,761,053) | (171,761,053) | (114,507,369) | (286,268,422) |
| - Provision for other liabilities (Note 33) | - | - | (28,294,227) | (28,294,227) | - | (28,294,227) |
| - Effect of transition to IFRS 9 (bad debts provision) | | | | | | |
| At start of year - as restated | 405,255,320 | 68,842,038 | (1,088,737,715) | (614,640,357) | (91,524,732) | (706,165,089) |
| Total comprehensive (loss) for the year | - | - | (276,019,820) | (276,019,820) | (70,185,268) | (346,205,088) |
| At end of year | <u>405,255,320</u> | <u>68,842,038</u> | <u>(1,364,757,535)</u> | <u>(890,660,177)</u> | <u>(161,710,000)</u> | <u>(1,052,370,177)</u> |

The notes on pages 25 to 61 form an integral part of these financial statements.

Report of the independent auditor - pages 15 and 16.

Home Afrika Limited
Annual report and consolidated financial statements
For the year ended 31 December 2018

COMPANY STATEMENT OF CHANGES IN EQUITY

| | Share capital Shs | Share premium Shs | Retained earnings Shs | Total Shs |
|--|----------------------|----------------------|--------------------------|----------------------|
| Year ended 31 December 2017 | | | | |
| At start of year | 405,255,320 | 68,842,038 | (306,990,113) | 167,107,245 |
| Total comprehensive (loss) for the year | - | - | (135,696,089) | (135,696,089) |
| At end of year | <u>405,255,320</u> | <u>68,842,038</u> | <u>(442,686,202)</u> | <u>31,411,156</u> |
| Year ended 31 December 2018 | | | | |
| At start of year - as previously stated | 405,255,320 | 68,842,038 | (442,686,202) | 31,411,156 |
| Prior year adjustment | - | - | (792,485,435) | (792,485,435) |
| - Effect of transition to IFRS 9 (bad debts provision) | | | | |
| At start of year - as restated | 405,255,320 | 68,842,038 | (1,235,171,637) | (761,074,279) |
| Total comprehensive (loss) for the year | - | - | (130,115,287) | (130,115,287) |
| At end of year | <u>405,255,320</u> | <u>68,842,038</u> | <u>(1,365,286,924)</u> | <u>(891,189,566)</u> |

The notes on pages 25 to 61 form an integral part of these financial statements.

Report of the independent auditor - pages 15 and 16.

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | 2018 Shs | 2017 Shs |
|--|-------|-------------------------|--------------------------|
| Operating activities | | | |
| Cash from operations | 26 | 71,198,168 | 81,046,627 |
| Interest paid | 27 | (11,644,764) | (40,757,824) |
| Tax paid | | <u>(1,497,150)</u> | <u>(6,755,621)</u> |
| Net cash from operating activities | | <u>58,056,254</u> | <u>33,533,182</u> |
| Investing activities | | | |
| Cash paid for purchase of property and equipment | 10 | (2,950,114) | (3,404,825) |
| Additions to investment property | 11 | (1,323,896) | (11,742,047) |
| Cash paid for purchase of intangible assets | 12 | (3,836,699) | - |
| Proceeds from disposal of property and equipment | | 540,000 | - |
| Proceeds from disposal of assets held for sale | | <u>-</u> | <u>41,500,000</u> |
| Net cash (used in)/from investing activities | | <u>(7,570,709)</u> | <u>26,353,128</u> |
| Financing activities | | | |
| Repayment: | | | |
| - borrowings | | (53,007,637) | (23,232,214) |
| - deposits for shares | | <u>(7,780,000)</u> | <u>(25,000,026)</u> |
| Net cash (used in) financing activities | 28 | <u>(60,787,637)</u> | <u>(48,232,240)</u> |
| (Decrease)/increase in cash and cash equivalents | | <u>(10,302,092)</u> | <u>11,654,070</u> |
| Movements in cash and cash equivalents | | | |
| At start of year | | 19,640,279 | 7,986,209 |
| (Decrease)/increase | | <u>(10,302,092)</u> | <u>11,654,070</u> |
| At end of year | 17 | <u><u>9,338,188</u></u> | <u><u>19,640,279</u></u> |

The notes on pages 25 to 61 form an integral part of these financial statements.

Report of the independent auditor - pages 15 and 16.

COMPANY STATEMENT OF CASH FLOWS

| | Notes | 2018 Shs | 2017 Shs |
|--|-------|--------------|--------------|
| Operating activities | | | |
| Cash from operations | 26 | 12,745,689 | 22,982,622 |
| Interest paid | 27 | (14,259,243) | (38,780,744) |
| Tax paid | | (238,095) | (2,983,988) |
| Net cash (used in) operating activities | | (1,751,649) | (18,782,110) |
| Investing activities | | | |
| Cash paid for purchase of property and equipment | 10 | (2,298,979) | (1,624,800) |
| Cash paid for purchase of intangible assets | 12 | (3,836,699) | - |
| Proceeds from disposal of property and equipment | | 540,000 | - |
| Proceeds from disposal of assets held for sale | | - | 41,500,000 |
| Net cash (used in)/from investing activities | | (5,595,678) | 39,875,200 |
| Financing activities | | | |
| Repayment: | | | |
| - borrowings | 27 | - | (13,817,542) |
| Net cash (used in) financing activities | | - | (13,817,542) |
| (Decrease)/increase in cash and cash equivalents | | (7,347,327) | 7,275,548 |
| Movements in cash and cash equivalents | | | |
| At start of year | | 10,118,445 | 2,842,897 |
| (Decrease)/increase | | (7,347,327) | 7,275,548 |
| At end of year | 17 | 2,771,118 | 10,118,445 |

The notes on pages 25 to 61 form an integral part of these financial statements.

Report of the independent auditor - pages 15 and 16.

NOTES

1. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

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

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

Going concern

The financial performance of the group is set out in the Director's report and in the statement of profit or loss and the other comprehensive income. The financial position of the group is set out in the statement of financial position. Disclosures in respect of risk management and capital management are set out in notes 30 and 31 to the financial statements.

During the year ended 31 December 2018, the group recognised a net loss of Shs. 346 million (2017: Shs. 181 million). The statement of financial position also indicates a deficiency in shareholders' funds of Shs. 1.052 billion (2017: Shs. 677 million) and net current liabilities of Shs. 1.732 billion (2017: Shs. 1.312 billion). However, included in the current liabilities are deposits for sale of plots and units as well as deferred income of Shs. 1.657 billion and Shs. 998 million respectively. There is little likelihood of these liabilities being paid out. Indications are that they will translate to revenues as the level of project completion improves.

The directors are currently engaging with the group lenders and also with prospective investors to raise additional funds. There also are certain significant sales of plots agreements being negotiated, which if successful will generate cash flows in excess of Shs. 1.8 billion over the next 24 - 48 months.

Based on the anticipated success of the negotiations above, the directors consider it appropriate to prepare the financial statements of the group and company on a going concern basis.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New and amended standards adopted by the group

All new and amended standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2018 have been adopted by the group. Of those, the following has had an effect on the group's financial statements:

International Financial Reporting Standards 9 (IFRS 9): Financial Instruments

IFRS 9 requires all financial assets to be measured at fair value on initial recognition and subsequently at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" (ECL) model based on the concept of providing for expected losses at the inception of a contract; this will require judgement in quantifying the impact of forecast economic factors. For financial assets for which there has not been a significant increase in credit risk since initial recognition, the loss allowance should represent ECLs that would result from probable default events within 12 months from the reporting date (12-month ECLs). For financial assets for which there has been a significant increase in credit risk, the loss allowance should represent lifetime ECLs. A simplified approach is allowed for trade receivables and lease receivables, whereby lifetime ECLs can be recognised from inception.

The group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, this has however not resulted to changes in accounting policies and adjustments to the amounts recognised in the financial statements. The group did not early adopt IFRS 9 in previous periods.

The group has adopted the simplified approach for the purpose for calculating the expected credit losses. In adopting the simplified approach, the group uses a provision matrix to calculate the expected credit losses that is based on the historical credit loss experience for trade receivables to estimate the expected credit losses. The simplified approach deviates from the general approach on recognition expected credit losses where it allows for recognition only for life time credit losses at the date of each reporting date.

As permitted by the transitional provisions of IFRS 9, the group elected not to restate comparative figures. Therefore the adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in opening retained earnings.

Consequently, for notes and disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes and disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New and amended standards adopted by the group (continued)

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the group. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in note 1(a) (i) and note 30.

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

| Group | IAS 39 | | IFRS 9 | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|
| | Measurement category | Carrying amount Shs. | Measurement category | Carrying amount Shs. |
| Financial assets | | | | |
| Cash and cash equivalents | Amortised cost | 19,640,279 | Amortised cost | 19,640,279 |
| Trade and other receivables | Amortised cost | 79,446,156 | Amortised cost | 51,151,929 |
| Company | | | | |
| | Measurement category | Carrying amount Shs. | Measurement category | Carrying amount Shs. |
| Financial assets | | | | |
| Cash and cash equivalents | Amortised cost | 10,118,445 | Amortised cost | 10,118,445 |
| Trade and other receivables | Amortised cost | 826,627,973 | Amortised cost | 34,142,538 |

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. For more detailed information regarding the new classification requirements of IFRS 9, refer to note 1(a) (i).

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

| Group | IAS 39 Carrying amount | | | IFRS 9 Carrying amount |
|-----------------------------|---------------------------|-------------------------------|--|---------------------------|
| | 31-Dec-17 Shs. | Re- classification Shs. | Re- measurement adjustment Shs. | 01-Jan-18 Shs. |
| Cash and cash equivalents | 19,640,279 | - | - | 19,640,279 |
| Trade and other receivables | 79,446,156 | - | (28,294,227) | 51,151,929 |

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New and amended standards adopted by the group (continued)

| Company | IAS 39 Carrying amount | Re- measurement adjustment | | IFRS 9 Carrying amount |
|-----------------------------|------------------------------|----------------------------------|---------------|------------------------------|
| | 31-Dec-17 Shs. | Re- classification Shs. | Shs. | 01-Jan-18 Shs. |
| Cash and cash equivalents | 10,118,445 | - | - | 10,118,44 |
| Trade and other receivables | 826,627,973 | - | (792,485,435) | 34,142,53 |

(iii) Significant and material impacts

- Total provision for impairment of trade and receivables for the group increased by Shs. 28,294,227 from Shs. 24,000,000 as at 31 December 2017 to Shs. 52,294,227 as at 1 January 2018;
- Overall decrease in equity for the group due to adoption of IFRS 9 is Shs. 28,294,227.
- Total provision for impairment of trade and receivables for the company increased by Shs. 792,485,435 from Shs. Nil as at 31 December 2017 to Shs. 792,485,435 as at 1 January 2018;
- Overall decrease in equity for the company due to adoption of IFRS 9 is Shs. 792,485,435.

IFRS 15: Revenue from contracts with customers

Under IFRS 15, revenue from sale of property is recognised when the customer obtains control of the property. Revenue from development of property is recognised over time based on the percentage of completion of the property. The application of the standard, in the current year has not had a material impact on the financial position or financial performance of the company, and a transition adjustment has, therefore, not been required.

New standards, amendments and interpretations issued but not effective

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

- Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.
- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective (continued)

- Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' effective for annual periods beginning on or after 1 January 2019 clarifying that IFRS 9 is only applicable to investments to which the equity method is not applied.
- Amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' effective for annual periods beginning on or after 1 January 2019 in relation to remeasurement of previously held interests on a joint operation on obtaining control.
- Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amortised cost classification.
- IFRS 16 'Leases' (issued in January 2017) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.
- IFRS 17 'Insurance Contracts' (issued May 2017) effective for annual periods beginning on or after 1 January 2022 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (issued in December 2016) effective for annual periods beginning on or after 1 January 2018, clarifies that the exchange rate to use in transactions that involve advance consideration paid or received in foreign currency is the one at the date of initial recognition of the non-monetary asset or liability.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

The directors expect that the future adoption of IFRS 16 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other standards and interpretations will have a material impact on the financial statements in future periods. The society plans to apply the changes above from their effective dates.

b) Critical accounting estimates and judgement

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

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Critical accounting estimates and judgement (continued)

- Measurement of expected credit losses (ECL):

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

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

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

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

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

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

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.
- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

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

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Critical accounting estimates and judgement (continued)

- Assessment of credit risk

The company assess and recognises lifetime expected credit losses at the end of the each reporting dates.

- Useful lives of property, plant and equipment

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

- Investment property

The company holds land that is for designated development and sale and land that is as of the balance sheet date not designated for any specific future use. Under the requirement of IAS 40 on Investment Property, land that is held without any designated future use is classified as Investment Property and measured at fair value in accordance with the accounting policy set-out below.

- Impairment of trade receivables

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

- Fair value measurement and valuation process

In estimating the fair value of an asset or a liability, the group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the group makes use of financial models or engages third party qualified values to perform the valuation and provide inputs to the model. issue.

c) Significant judgements made by management in applying the company's accounting policies

Directors have made the following judgements that are considered to have the most significant effect on the amounts recognised in the financial statements:

- Revenue recognition** - Revenue in respect of the sale of property is recognised at a value representing the fair value of the land as at the date of the transaction with the remainder of the sales proceeds being recognised as the common infrastructure gets developed using the percentage of completion method based on an estimate of total project costs determined by an independent professional quantity surveyor.
- Fair value of investment property** - Fair value gains and losses on investment property are based on professional valuations performed by an independent valuer of the land assuming project completion has taken place. To reflect the current value of such land given actual project development status, a discount reflecting the percentage of completion is applied to such fair values. The percentage of completion used is consistent as described under revenue recognition above.
- Control of subsidiaries, associates and joint ventures** - The directors assess whether or not the group has control over any entity based on whether or not the group has the practical ability to direct the relevant activities of the entity unilaterally. In making their judgement, the directors considered the groups absolute size of holding in the entity and the relative size of dispersion of the shareholdings owned by the other shareholders.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Significant judgements made by management in applying the company's accounting policies (continued)

- **Accounting for borrowing costs** - The directors assess the degree of continued development activity at the underlying project sites to determine whether interest and other costs incurred on borrowings related to ongoing project development should be capitalised. In determining whether continued development is relevant, directors consider the level of administrative activities that are necessary for project development as well as direct development activities. The directors also consider development of infrastructure of ancillary services such as roads, water and power around the project site as relevant ongoing development.

d) Revenue recognition

The company recognises revenue from sale of property. The company recognises revenue as and when it satisfies a performance obligation by transferring control of a product or service to a customer. The amount of revenue recognised is the amount the Company expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties, such as Value Added Tax.

i) Revenue from sale of land

Revenue from sale of land is recognised when the transaction with the buyer is substantially complete which coincides with the transfer to the buyer of the significant risks and rewards of ownership and the entity retaining neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the land.

ii) Revenue from infrastructure development

Remaining revenue relating to infrastructure construction is recognised using the percentage of completion method.

Other income

- i) Interest income is accrued by reference to time in relation to the principal outstanding and the effective interest rate applicable.
- ii) Dividend income is recognised when the shareholders right to receive payment has been established
- iii) Rental income is accrued by reference to time on a straight line basis over the lease term

e) Investment in subsidiaries/Consolidation

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies. Control is achieved when the company; has power over the trustee; is exposed or has right to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Investment in subsidiaries/Consolidation (continued)

Intra-group balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary adjustments are made to financial statements of subsidiary to bring their accounting policies into line with the groups accounting policy.

f) Property and equipment

All property and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

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

| | Rate % |
|------------------------|----------------------|
| Buildings | 2.50 (straight line) |
| Motor vehicles | 25.00 |
| Tractor | 37.50 |
| Computer equipment | 30.00 |
| Office equipment | 12.50 |
| Furniture and fittings | 12.50 |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss.

g) Investment property

Investment property is long-term investments in land that are not occupied substantially for own use. Land held with an undetermined future use is also classified as investment property. Investment property is initially recognised at cost and subsequently carried at fair value representing open market value at the reporting date. Changes in fair value are recorded in profit or loss based on the percentage of completion as described in note (c) above.

Subsequent expenditure on investment property where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other expenditure is recognised as an expense in the year which it is incurred.

Gains and losses on disposal of investment property is determined by reference to their carrying amount and are taken into account in determining operating profit/(loss).

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be 3 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

i) Financial instruments

Financial instruments are recognised when, and only when, the company becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale.

- Financial assets

The company classifies its financial assets into the following categories:

i) Amortised cost;

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

ii) Fair Value Through Other Comprehensive Income (FVTOCI):

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

iii) Fair Value Through Profit or Loss (FVTPL):

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement.

Notwithstanding the above, the company may:

- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income
- on initial recognition of a debt instrument, irrevocably designate it as classified and measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

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

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

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

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

Financial liabilities

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

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

j) Inventories

Inventories comprise of land and developments held for sale and is stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out (FIFO) basis and comprises all costs attributable to purchase of the land and direct cost for the development of common amenities and related service costs including finance costs.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

l) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

m) Share premium

Share premium represents the amount received by the company over the par value of the ordinary shares issued.

Deposits received for ordinary and preference shares are also classified as liabilities. On allotment of ordinary shares, the amounts are reclassified to equity.

n) Dividend

Proposed dividends are disclosed as a separate component of equity until declared.

Dividends are recognised as a liability in the period in which they are approved by the group's shareholders.

o) Taxation

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

Current tax

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

Deferred tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

p) Accounting for leases

The group as lessee

Leases of assets where the group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

NOTES (CONTINUED)

p) Accounting for leases (continued)

The group as lessee (continued)

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the contingent rentals are recognised as expenses in the periods in which they are incurred.

Such property and equipment is depreciated over its useful life.

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease. Lease incentives received are recognised as a liability and reduction of the rental expense on a straight line basis.

q) Retirement benefit obligations

The group and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate. The company has no further obligation once the contributions have been paid.

r) Borrowing costs

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

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

s) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. A summary of the changes made on the comparatives are disclosed under note 33 to the financial statements.

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NOTES (CONTINUED)

2. Segmental reporting

The group is engaged in the business of development and sale of real estate and related activities. This business is conducted through different subsidiaries representing separate projects of the group. The basis of reporting the performance of the group for resource allocation purposes to the board of directors (which represents the chief operating decision maker for the purposes of segmental reporting) is on a company by company basis.

While certain group companies are involved in post real-estate development activities such as provision of services to occupiers etc, these activities are not material to the group as a whole and therefore not separately disclosable.

In respect of the primary operations of real estate development and sale, all activities of the group are carried out within a single economic area being Kenya and are therefore subject to common economic characteristics. These operations are therefore aggregated together, along with the immaterial related activities discussed in the preceding paragraph such that the group's activities comprises a single operating segment. The financial results for the operations of the group are presented to the board are the same as the measures of operating profit and profit before tax as presented in the statement of profit or loss and other comprehensive income. All the assets and liabilities of the group represent the single overall aggregated segment.

As its geographic operations are confined to a single country, no disclosures by geography are applicable. All revenue, costs, assets and liabilities arise and are held in Kenya.

During the year, there is no single customer which represents more than 10% of the total group turnover (2017: Nil).

3. Revenue from contracts with customers

Recognised at a point in time
 - Revenue from sale of land and units
 Recognised over time:
 - Revenue from sale of infrastructure development

| | Group | | Company | |
|--|-------------|-------------|------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | Shs | Shs | Shs | Shs |
| | 53,538,353 | 145,450,812 | 15,181,000 | - |
| | 55,500,168 | 117,336,727 | - | - |
| | 109,038,521 | 262,787,539 | 15,181,000 | - |
| | 5,336,534 | 6,474,025 | - | 2,886,000 |
| | 2,521,250 | 3,447,522 | 810,000 | 2,742,763 |
| | 7,857,784 | 9,921,547 | 810,000 | 5,628,763 |

4. Other operating income

Rental income
 Other income

NOTES (CONTINUED)

5. Operating (loss)

The following items have been charged in arriving at operating (loss):

Depreciation on property and equipment (Note 10)
Amortisation of intangible assets (Note 12)
Auditors' remuneration
- current year
- under provision in prior years
Directors' emoluments
Staff costs (Note 6)

6. Staff costs

Salaries and wages
Other staff costs
Pension costs:
- National Social Security Fund

| | Group | | Company | |
|-----|-------------|------------|------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Shs | Shs | Shs | Shs | Shs |
| | 6,874,919 | 6,809,065 | 3,962,764 | 3,575,521 |
| | 1,266,111 | 756,297 | 1,266,111 | 756,297 |
| | 3,686,000 | 3,686,000 | 600,000 | 600,000 |
| | 311,944 | 89,144 | - | - |
| | 31,985,228 | 23,493,572 | 2,550,000 | 19,215,000 |
| | 112,875,518 | 89,769,634 | 64,914,239 | 36,128,315 |
| | 100,761,719 | 78,341,971 | 61,125,429 | 30,624,933 |
| | 11,951,199 | 11,290,263 | 3,695,810 | 5,428,782 |
| | 162,600 | 137,400 | 93,000 | 74,600 |
| | 112,875,518 | 89,769,634 | 64,914,239 | 36,128,315 |

| | Group | | Company | |
|-----|-------|------|---------|------|
| | 2018 | 2017 | 2018 | 2017 |
| Shs | Shs | Shs | Shs | Shs |
| | 20 | 22 | 14 | 16 |
| | 14 | 21 | 4 | 6 |
| | 14 | 25 | 5 | 15 |
| | 48 | 68 | 23 | 37 |

7. Finance costs

Interest expense:
- bank borrowings
- private placement bond
- deposit for shares

| | Group | | Company | |
|-----|-------------|------------|------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Shs | Shs | Shs | Shs | Shs |
| | 144,614,649 | 48,143,567 | - | 1,262,430 |
| | 14,259,243 | 36,980,557 | 14,259,243 | 36,980,557 |
| | 1,803,600 | 3,147,974 | - | - |
| | 160,677,492 | 88,272,098 | 14,259,243 | 38,242,987 |

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NOTES (CONTINUED)

8. Tax

| | Group | | Company | |
|--|---------------------|---------------------|----------------|------------------|
| | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs |
| Current tax | 1,177,907 | 1,864,440 | - | 865,800 |
| Over provision of current tax in prior years | - | (4,890,891) | - | - |
| Deferred tax (credit)/charge (Note 24) | (46,877,574) | (36,552,887) | 624,639 | 199,685 |
| | <u>(45,699,667)</u> | <u>(39,579,338)</u> | <u>624,639</u> | <u>1,065,485</u> |

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

| | | | | |
|--|---------------------|---------------------|----------------|------------------|
| (Loss) before tax | (391,904,755) | (221,014,550) | (129,490,648) | (134,630,604) |
| Tax calculated at a tax rate of 30% (2017: 30%) | (117,571,427) | (66,304,365) | (38,847,194) | (40,389,181) |
| Tax effect of: | | | | |
| - income and expenses not taxable/allowable | (22,675,689) | (21,346,921) | 2,533,760 | 1,961,762 |
| - tax losses on which deferred tax has not been recognised | 86,883,057 | 52,962,839 | 35,914,810 | 39,492,904 |
| - Deferred tax assets not recognised | 7,664,392 | - | 398,624 | - |
| - Deferred tax for prior year written off | - | - | 624,639 | - |
| - (Over) provision in prior years | - | (4,890,891) | - | - |
| | <u>(45,699,667)</u> | <u>(39,579,338)</u> | <u>624,639</u> | <u>1,065,485</u> |

9. (Loss) per share

Basic group loss per share is calculated by dividing the loss attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs |
| Net (loss) attributable to shareholders | (276,019,820) | (179,786,896) | (130,115,287) | (135,696,089) |
| Weighted average number of ordinary shares | 405,255,320 | 405,255,320 | 405,255,320 | 405,255,320 |
| (Loss) per share - basic and diluted | (0.68) | (0.44) | (0.32) | (0.33) |

NOTES (CONTINUED)

10. Property and equipment

| Group | Building Shs | Tractor Shs | Motor vehicles Shs | Computer equipment Shs | Furniture and fittings Shs | Office equipment Shs | Total Shs |
|------------------------------------|-----------------|----------------|--------------------------|------------------------------|----------------------------------|----------------------------|--------------|
| Year ended 31 December 2018 | | | | | | | |
| Cost | | | | | | | |
| At start of year | 33,138,104 | 4,457,686 | 8,700,860 | 6,670,710 | 20,339,601 | 30,255,905 | 103,562,866 |
| Additions | - | - | 86,764 | 1,362,730 | 1,366,070 | 134,550 | 2,950,114 |
| Disposal | - | - | (850,000) | - | - | - | (850,000) |
| At end of year | 33,138,104 | 4,457,686 | 7,937,624 | 8,033,440 | 21,705,671 | 30,390,455 | 105,662,980 |
| Depreciation | | | | | | | |
| At start of year | 8,561,292 | 4,032,568 | 6,543,837 | 4,720,732 | 9,754,855 | 12,119,405 | 45,732,689 |
| Charge for the year | 1,535,639 | 159,419 | 539,255 | 904,779 | 1,401,468 | 2,334,359 | 6,874,919 |
| At end of year | 10,096,931 | 4,191,987 | 7,083,092 | 5,625,511 | 11,156,323 | 14,453,764 | 52,607,608 |
| Net book value | 23,041,173 | 265,699 | 854,532 | 2,407,929 | 10,549,348 | 15,936,691 | 53,055,372 |
| Year ended 31 December 2017 | | | | | | | |
| Cost | | | | | | | |
| At start of year | 33,138,104 | 4,457,686 | 7,850,860 | 5,275,610 | 20,186,601 | 29,249,180 | 100,158,041 |
| Additions | - | - | 850,000 | 1,395,100 | 153,000 | 1,006,725 | 3,404,825 |
| At end of year | 33,138,104 | 4,457,686 | 8,700,860 | 6,670,710 | 20,339,601 | 30,255,905 | 103,562,866 |
| Depreciation | | | | | | | |
| At start of year | 7,025,653 | 3,777,497 | 6,013,718 | 4,288,371 | 8,471,968 | 9,346,416 | 38,923,623 |
| Charge for the year | 1,535,639 | 255,071 | 530,119 | 432,361 | 1,282,887 | 2,772,989 | 6,809,066 |
| At end of year | 8,561,292 | 4,032,568 | 6,543,837 | 4,720,732 | 9,754,855 | 12,119,405 | 45,732,689 |
| Net book value | 24,576,812 | 425,118 | 2,157,023 | 1,949,978 | 10,584,746 | 18,136,500 | 57,830,177 |

NOTES (CONTINUED)

10. Property and equipment (continued)

Company

Year ended 31 December 2018

Cost

| | | | | | | |
|------------------|------------|-----------|-----------|------------|-----------|------------|
| At start of year | 56,994,527 | 4,444,860 | 4,119,295 | 16,330,513 | 4,901,466 | 86,790,661 |
| Additions | - | 86,764 | 1,188,730 | 898,435 | 125,050 | 2,298,979 |
| Disposal | - | (850,000) | - | - | - | (850,000) |
| At end of year | 56,994,527 | 3,681,624 | 5,308,025 | 17,228,948 | 5,026,516 | 88,239,640 |

Depreciation

| | | | | | | |
|---------------------|------------|-----------|-----------|-----------|-----------|------------|
| At start of year | 11,289,511 | 3,016,393 | 2,962,888 | 8,125,595 | 2,573,297 | 27,967,684 |
| Charge for the year | 1,535,637 | 378,807 | 627,327 | 1,114,340 | 306,653 | 3,962,764 |

At end of year

| | | | | | | |
|--|------------|-----------|-----------|-----------|-----------|------------|
| | 12,825,148 | 3,395,200 | 3,590,215 | 9,239,935 | 2,879,950 | 31,930,448 |
|--|------------|-----------|-----------|-----------|-----------|------------|

Net book value

| | | | | | | |
|--|------------|---------|-----------|-----------|-----------|------------|
| | 44,169,379 | 286,424 | 1,717,810 | 7,989,013 | 2,146,566 | 56,309,192 |
|--|------------|---------|-----------|-----------|-----------|------------|

Year ended 31 December 2017

Cost

| | | | | | | |
|------------------|------------|-----------|-----------|------------|-----------|------------|
| At start of year | 56,994,527 | 3,594,860 | 3,344,495 | 16,330,513 | 4,901,466 | 85,165,861 |
| Additions | - | 850,000 | 774,800 | - | - | 1,624,800 |
| At end of year | 56,994,527 | 4,444,860 | 4,119,295 | 16,330,513 | 4,901,466 | 86,790,661 |

Depreciation

| | | | | | | |
|---------------------|-----------|-----------|-----------|-----------|-----------|------------|
| At start of year | 9,753,872 | 2,729,126 | 2,714,999 | 6,953,464 | 2,240,702 | 24,392,163 |
| Charge for the year | 1,535,639 | 287,267 | 247,889 | 1,172,131 | 332,595 | 3,575,521 |

At end of year

| | | | | | | |
|--|------------|-----------|-----------|-----------|-----------|------------|
| | 11,289,511 | 3,016,393 | 2,962,888 | 8,125,595 | 2,573,297 | 27,967,684 |
|--|------------|-----------|-----------|-----------|-----------|------------|

Net book value

| | | | | | | |
|--|------------|-----------|-----------|-----------|-----------|------------|
| | 45,705,016 | 1,428,467 | 1,156,407 | 8,204,918 | 2,328,169 | 58,822,977 |
|--|------------|-----------|-----------|-----------|-----------|------------|

NOTES (CONTINUED)

11. Investment property

Group

Year ended 31 December 2018

| | | | |
|------------------|-------------|------------|--------------|
| At start of year | Land Shs | WIP Shs | Total Shs |
| Additions | 570,026,085 | 53,154,250 | 623,180,335 |
| At end of year | - | 1,323,896 | 1,323,896 |
| | 570,026,085 | 54,478,146 | 624,504,231 |

Year ended 31 December 2017

| | | | |
|--------------------------|---------------|--------------|---------------|
| At start of year | Land Shs | WIP Shs | Total Shs |
| Transfers to inventories | 633,487,531 | 52,134,997 | 685,622,528 |
| Additions | (124,290,254) | (10,722,794) | (135,013,048) |
| Fair value gain | - | 11,742,047 | 11,742,047 |
| At end of year | 60,828,808 | - | 60,828,808 |
| | 570,026,085 | 53,154,250 | 623,180,335 |

The fair value of investment property comprising buildings was determined by reference to the market prices of similar properties of the type and in the area in which the property is situated. The valuation was carried out by an independent professional valuer with recent experience in the location and category of the investment property being valued.

The fair value of the group's land investment properties are determined annually at the reporting date by an independent professionally qualified valuer adjusted by management to reflect the current stage of completion of the project. In determining the valuations the valuer refers to current market conditions including recent sales transactions of similar properties. In estimating the fair value of the properties, the highest and best use of the property is their use at the end of the project development adjusted by the completion factor to reflect the condition as of the balance sheet date. There has been no change in the valuation technique used during the year.

Fair value hierarchy

Group:

| | | | | |
|----------------------------------|----------------|----------------|----------------|-------------------|
| Land held as investment property | Level 1 Shs | Level 2 Shs | Level 3 Shs | Fair value Shs |
| | - | - | 624,504,231 | 624,504,231 |

The fair valuation of the investment property is included as a level 3 valuation based on a significant non-observable input being the stage of completion of the project development within which the investment property resides which therefore has a material impact on the fair valuation as of the date of the statement of financial position. The percentage of completion used for this valuation is 46.74% as at 31 December 2018 (46.74% as at 31 December 2017). Management does not expect there to be a material sensitivity to the value of the investment property as the percentage of completion is based on qualified professional assessments of the project development.

The table above presents the changes in the carrying value of the investment property arising from these fair valuation assessments.

NOTES (CONTINUED)

12. Intangible assets

| Group | Computer Software Shs | Website costs Shs | Total Shs |
|------------------------------------|------------------------------|--------------------------|------------------|
| Year ended 31 December 2018 | | | |
| Cost | | | |
| At start of year | 6,434,337 | 1,183,800 | 7,618,137 |
| Additions | 3,836,699 | - | 3,836,699 |
| At end of year | 10,271,036 | 1,183,800 | 11,454,836 |
| Amortisation | | | |
| At start of year | 6,434,337 | 1,183,800 | 7,618,137 |
| Amortisation for the year | 1,266,111 | - | 1,266,111 |
| At end of year | 7,700,448 | 1,183,800 | 8,884,248 |
| Net book value | 2,570,588 | - | 2,570,588 |
| Year ended 31 December 2017 | | | |
| | Computer Software Shs | Website costs Shs | Total Shs |
| Cost | | | |
| At start of year | 5,896,580 | 1,183,800 | 7,080,380 |
| Additions | 537,757 | - | 537,757 |
| | 6,434,337 | 1,183,800 | 7,618,137 |
| Amortisation | | | |
| At start of year | 5,678,040 | 1,183,800 | 6,861,840 |
| Amortisation for the year | 756,297 | - | 756,297 |
| At end of year | 6,434,337 | 1,183,800 | 7,618,137 |
| Net book value | - | - | - |
| Company | Computer software | | |
| | 2018 | 2017 | |
| Cost | Shs | Shs | |
| At start of year | 6,434,337 | 5,896,580 | |
| Additions | 3,836,699 | 537,757 | |
| At end of year | 10,271,036 | 6,434,337 | |
| Amortisation | | | |
| At start of year | 6,434,337 | 5,678,040 | |
| Amortisation for the year | 1,266,111 | 756,297 | |
| At end of year | 7,700,448 | 6,434,337 | |
| Net book value | 2,570,588 | - | |

NOTES (CONTINUED)

13. Investments in subsidiaries

| Company Name | Country of incorporation | Holding | | Company | |
|--------------------------------------|-----------------------------|---------|------|-------------------|-------------------|
| | | 2018 | 2017 | 2018 Shs | 2017 Shs |
| Suburban Limited | Kenya | 50% | 50% | 74,334,247 | 74,334,247 |
| Mitini Scapes Development Limited | Kenya | 100% | 100% | 100,000 | 100,000 |
| Lakeview Heights Development Limited | Kenya | 100% | 100% | 100,000 | 100,000 |
| Lango Development Limited | Kenya | 100% | 100% | 100,000 | 100,000 |
| Kikwetu Limited | Kenya | 100% | 100% | 100,000 | 100,000 |
| Smart Plots Limited | Kenya | 100% | 100% | 100,000 | 100,000 |
| Home Afrika Communities Limited | Kenya | 60% | 60% | 2,100,000 | 2,100,000 |
| Migaa Management Limited | Kenya | 52% | 52% | 52,000 | 52,000 |
| | | | | <u>76,986,247</u> | <u>76,986,247</u> |

The composition of the group is as follows:

| Name | Country of incorporation | Proportion of ownership interest | | Proportion owned via subsidiary companies | | Principal Activities | Wholly or non- wholly owned subsidiary |
|--------------------------------------|-----------------------------|-------------------------------------|------|--|------|-------------------------------------|--|
| | | 2018 | 2017 | 2018 | 2017 | | |
| Mitini Scapes Development Limited | Kenya | 100% | 100% | - | - | Development and sale of real estate | Wholly |
| Lakeview Heights Development Limited | Kenya | 100% | 100% | - | - | Development and sale of real estate | Wholly |
| Lango Development Limited | Kenya | 100% | 100% | - | - | Development and sale of real estate | Wholly |
| Kikwetu Limited | Kenya | 100% | 100% | - | - | Development and sale of real estate | Wholly |
| Smart Plots Limited | Kenya | 100% | 100% | - | - | Development and sale of real estate | Wholly |
| Home Afrika Communities Limited | Kenya | 60% | 60% | - | - | Development and sale of real estate | Non-wholly |
| Suburban Limited | Kenya | 50% | 50% | - | - | Development and sale of real estate | Non-wholly |
| Migaa Management Limited | Kenya | 52% | 52% | - | - | Development and sale of real estate | Non-wholly |
| Moru Ridge Limited | Kenya | - | - | 60% | 60% | Development and sale of real estate | Non-wholly |
| Kivuli Golf Limited | Kenya | - | - | 60% | 60% | Development and sale of real estate | Non-wholly |
| Migaa PDS Limited | Kenya | - | - | 60% | 60% | Development and sale of real estate | Non-wholly |

NOTES (CONTINUED)

13. Investments in subsidiaries (continued)

The group owns 50% equity shares of Suburban Limited. The remaining 50% is held by unrelated shareholders. An assessment of control was performed by the group based on whether the group has the practical ability to direct the relevant activities unilaterally and it was concluded that the group was involved in active day to day management and therefore had dominant powers to direct the relevant activities of Suburban Limited.

Summarised financial information

Summarised financial information in respect of each of the group's main subsidiaries that has a material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations based on the unaudited financial statements of the companies.

| | Home Afrika Communities Limited | | Suburban Limited | | Moru Ridge Limited | |
|---------------------------|---------------------------------|-----------------|------------------|---------------|--------------------|-----------------|
| | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs |
| Current assets | 1,740,807,363 | 1,653,585,476 | 72,250,972 | 89,828,393 | 1,300,764,225 | 1,297,953,493 |
| Non-current assets | 636,798,321 | 637,090,351 | 531,649 | 580,748 | 13,782 | 19,688 |
| Current liabilities | (2,436,538,749) | (2,165,051,566) | (134,285,638) | (132,736,998) | (1,460,045,588) | (1,343,204,511) |
| Non-current liabilities | - | 47,760,339 | - | - | - | - |
| Non-controlling interests | 71,393,907 | 85,927,599 | (53,451,799) | (43,935,524) | (63,707,032) | (18,092,532) |

NOTES (CONTINUED)

13. Investments in subsidiaries (continued)

Summarised financial information (continued)

| | Home Afrika Communities Limited | | Suburban Limited | | Moru Ridge Limited | |
|--|--|---------------------|-------------------------|------------------|---------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | Shs | Shs | Shs | Shs | Shs | Shs |
| Revenue | 51,787,308 | 133,749,299 | 3,328,800 | 3,328,800 | - | - |
| Expenses | (181,240,152) | (231,037,000) | (22,503,959) | (2,041,894) | (114,036,250) | (489,807) |
| (Loss) or profit for the year | (129,452,844) | (97,287,701) | (19,175,159) | 1,286,906 | (114,036,250) | (489,807) |
| Profit or loss attributable to the non-controlling interests | (14,533,692) | (1,335,696) | (9,516,275) | 640,201 | (45,614,500) | (195,923) |
| Net cash (out)/in flow from operating activities | 5,876,832 | (97,626,760) | (41,463) | 94,105 | (104,452,780) | (108,767,116) |
| Net cash (out)/in flow from investing activities | (1,766,176) | 122,114,681 | - | - | - | - |
| Net cash (out)/in flow from financing activities | (1,500,000) | (24,400,000) | - | - | 104,445,081 | 108,775,267 |
| Net cash (out)/ in flow | 2,610,656 | 87,921 | (41,463) | 94,105 | (7,699) | 8,151 |

Significant restrictions

There are no significant restrictions on the company's or subsidiary's ability to access or use the assets and settle the liabilities of the group.

NOTES (CONTINUED)

14. Financial assets

| Available-for-sale | Incorporation | | Group and company | |
|---------------------------------|----------------------|-----|--------------------------|-------------|
| | | | 2018 | 2017 |
| | | | Shs | Shs |
| Morningside Office Park Limited | Kenya | 12% | 2,000 | 2,000 |

The carrying amount of the investment above is not expected to be materially different from its fair value.

15. Inventories

| | Group | | Company | |
|---------------------|----------------------|----------------------|--------------------|--------------------|
| | 2018 | 2017 | 2018 | 2017 |
| | Shs | Shs | Shs | Shs |
| Plots held for sale | 515,642,873 | 459,284,499 | 186,535,767 | 315,794,495 |
| Units held for sale | 389,332,764 | 400,708,532 | - | - |
| Work in progress | 2,838,009,117 | 2,837,736,014 | - | - |
| | <u>3,742,984,754</u> | <u>3,697,729,045</u> | <u>186,535,767</u> | <u>315,794,495</u> |

Residential apartment blocks included within inventory with a cumulative cost amounting to Shs. 1.043 billion have been pledged as security against bank loan as disclosed in Note 20.

Inventory with a cost amounting to Shs. 106,878,163 have been pledged as security against preference shares as disclosed in Note 23.

Inventory with a cost amounting to Shs. 53,667,275 have been pledged as security against private placement bond as disclosed in Note 22.

Borrowing costs (net of releases to cost of sales on completed and sold inventory) amounting to Shs. 83.5 million (2017: Shs. 242 million) have been capitalised to inventories during the year. The directors have assessed actual underlying development activity at the project sites as well as related administrative functions in determining the appropriateness of capitalisation of these borrowing costs. Direct development valued at Shs. 65 million (2017: Shs. 177 million) was undertaken at the project sites during the year.

Included in the inventories above are residential apartments constructed by a separate group entity, Moru Ridge Limited with cumulative costs amounting to Shs. 1.043 billion. The said residential apartments have been subject to repossession by the bank as a collateral to a bank loan on which the properties had been charged. The bank was unsuccessful in its effort to get a buyer to buy the properties and they did not receive any offers that were close to the cumulative costs so far incurred in putting up the residential blocks. There is therefore indication of impairment of this inventories. The directors are of the opinion that in the absence of a valuation done by a qualified valuer, they cannot reliably estimate the extent of impairment the property. Therefore, no provision for impairment has been booked in the financial statements.

16. Trade and other receivables

| | Group | | Company | |
|--|-------------------|-------------------|-------------------|--------------------|
| | 2018 | 2017 | 2018 | 2017 |
| | Shs | Shs | Shs | Shs |
| Non current | | | | |
| Receivables from related parties (Note 28(ii)) | - | - | - | 577,566,021 |
| Current | | | | |
| Trade receivables | 24,000,000 | 24,000,000 | - | - |
| Less: impairment provision | (24,000,000) | (24,000,000) | - | - |
| Net trade receivables | - | - | - | - |
| Other receivables | 6,848,540 | 3,459,075 | 6,748,940 | 336,553 |
| Deposits and prepayments | 54,559,709 | 35,667,884 | 2,690,247 | 2,578,691 |
| Shareholders account | 500,000 | 500,000 | - | - |
| Receivables from related parties (Note 28(ii)) | 47,086,803 | 39,819,197 | 822,883,612 | 246,146,708 |
| Less: impairment provision | (38,987,869) | - | (800,685,311) | - |
| | <u>70,007,183</u> | <u>79,446,156</u> | <u>31,637,488</u> | <u>249,061,952</u> |
| | <u>70,007,183</u> | <u>79,446,156</u> | <u>31,637,488</u> | <u>826,627,973</u> |

NOTES (CONTINUED)

16. Trade and other receivables (continued)

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

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

17. Cash and cash equivalents

| | Group | | Company | |
|--------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs |
| Cash at bank and in hand | <u>9,338,188</u> | <u>19,640,279</u> | <u>2,771,118</u> | <u>10,118,445</u> |

The company's cash and bank balances are held with major Kenyan financial institutions and, insofar as the directors are able to measure any credit risk to these assets, it is deemed to be limited.

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

18. Deferred income

| | Group | |
|-----------------|---------------------|---------------------|
| | 2018 Shs | 2017 Shs |
| Deferred income | <u>998,427,582</u> | <u>936,785,104</u> |

Deferred income represents unrecognised revenue on account of ongoing construction.

19. Trade and other payables

| | Group | | Company | |
|---|----------------------|----------------------|---------------------|---------------------|
| | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs |
| Current | | | | |
| Trade payables | 442,517,935 | 490,544,573 | 100,971,781 | 228,335,501 |
| Accruals | 548,184,253 | 415,252,231 | 151,296,687 | 135,205,913 |
| Provision for other liabilities | 286,268,422 | 286,268,422 | - | - |
| Deposit for service charge and shares | 21,219,750 | 18,879,750 | - | - |
| Other payables | 65,247,058 | 53,010,589 | 31,948,987 | 32,824,332 |
| Payable to related parties (Note 28(iii)) | <u>77,345,722</u> | <u>99,837,598</u> | <u>249,224,129</u> | <u>204,558,982</u> |
| | <u>1,440,783,140</u> | <u>1,363,793,163</u> | <u>533,441,584</u> | <u>600,924,728</u> |
| Deposit from sale of plots and units | <u>1,632,533,384</u> | <u>1,418,897,759</u> | <u>214,287,801</u> | <u>161,947,501</u> |
| Total trade and other payables | <u>3,073,316,524</u> | <u>2,782,690,922</u> | <u>747,729,385</u> | <u>762,872,229</u> |

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

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

NOTES (CONTINUED)

19. Trade and other payables (continued)

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

Year ended 31 December 2018

| | 0 to 1 month Shs | 2 to 3 months Shs | 4 to 12 months Shs | Total Shs |
|---------------------------------------|---------------------------------|----------------------------------|-----------------------------------|----------------------|
| Trade payables | 23,365,913 | 189,967,260 | 229,184,762 | 442,517,935 |
| Accruals | 140,708,943 | 173,795,688 | 233,679,622 | 548,184,253 |
| Provision for other liabilities | - | - | 286,268,422 | 286,268,422 |
| Deposit from sale of plots and units | - | 140,424,185 | 1,492,109,199 | 1,632,533,384 |
| Deposit for service charge and shares | - | 3,010,185 | 62,236,873 | 21,219,750 |
| Other payables | - | 10,984,535 | 66,361,187 | 65,247,058 |
| Payable to related parties | 8,829,186 | - | 68,516,536 | 77,345,722 |
| | <u>172,904,042</u> | <u>518,181,853</u> | <u>2,438,356,601</u> | <u>3,073,316,524</u> |

Year ended 31 December 2017

| | | | | |
|---------------------------------------|--------------------|--------------------|----------------------|----------------------|
| Trade payables | 25,901,824 | 210,584,478 | 254,058,271 | 490,544,573 |
| Accruals | 106,587,707 | 131,651,077 | 177,013,447 | 415,252,231 |
| Provision for other liabilities | - | - | 286,268,422 | 286,268,422 |
| Deposit from sale of plots and units | - | 122,048,078 | 1,296,849,681 | 1,418,897,759 |
| Deposit for service charge and shares | - | 2,678,238 | 16,201,512 | 18,879,750 |
| Other payables | - | 8,924,489 | 44,086,100 | 53,010,589 |
| Payable to related parties | 11,396,684 | - | 88,440,914 | 99,837,598 |
| | <u>143,886,215</u> | <u>475,886,360</u> | <u>2,162,918,347</u> | <u>2,782,690,922</u> |

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

Year ended 31 December 2018

| | 0 to 1 month Shs | 2 to 3 months Shs | 4 to 12 months Shs | Total Shs |
|----------------------------|---------------------------------|----------------------------------|-----------------------------------|----------------------|
| Trade payables | 58,321,221 | 36,279,734 | 6,370,826 | 100,971,781 |
| Accruals | 18,378,985 | 47,317,657 | 85,600,045 | 151,296,687 |
| Deposit from sale of plots | 28,590,992 | 185,696,809 | - | 214,287,801 |
| Other payables | - | 2,834,537 | 29,114,450 | 31,948,987 |
| Payable to related parties | - | - | 249,224,129 | 249,224,129 |
| | <u>105,291,198</u> | <u>272,128,737</u> | <u>370,309,450</u> | <u>747,729,385</u> |

Year ended 31 December 2017

| | | | | |
|----------------------------|--------------------|--------------------|--------------------|--------------------|
| Trade payables | 131,886,405 | 82,042,242 | 14,406,854 | 228,335,501 |
| Accruals | 16,424,335 | 42,285,308 | 76,496,270 | 135,205,913 |
| Deposit from sale of plots | 21,607,575 | 140,339,926 | - | 161,947,501 |
| Other payables | - | 2,912,198 | 29,912,134 | 32,824,332 |
| Payable to related parties | - | - | 204,558,982 | 204,558,982 |
| | <u>169,918,315</u> | <u>267,579,674</u> | <u>325,374,240</u> | <u>762,872,229</u> |

NOTES (CONTINUED)

20. Borrowings

| | Group | | Company | |
|--|--------------|-------------|----------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| | Shs | Shs | Shs | Shs |

The borrowings are made up as follows:

Current

| | | | | |
|------------|--------------------|--------------------|----------|----------|
| Bank loans | <u>803,049,894</u> | <u>707,024,803</u> | <u>-</u> | <u>-</u> |
|------------|--------------------|--------------------|----------|----------|

The borrowings are secured by the following:

(i) I & M Bank Limited

- Joint and several personal guarantees and indemnities of an amount of Shs. 325,000,000 each by the directors of Mitini Scapes development Limited.
- Corporate guarantee and indemnity of Home Afrika Limited for an amount of Shs. 325,000,000.
- A fixed and floating debenture for an amount of Shs. 325,000,000 over all the assets of Mitini Scapes Development Limited.
- First legal charge/mortgage for an amount of Shs. 325,000,000 over the sublease unit PDS S03 on L.R. No. 29059, Nairobi registered in the name of Mitini Scapes Development Limited.

(ii) Eco Bank Kenya Limited

- Legal charge of Shs. 400,000,000 over property known as unit No. MO014 situated on L.R. No. 29059, Kiambu.
- Corporate guarantee and indemnity from Home Afrika Communities Limited, Home Afrika Limited, Tulip Trustee Limited and Linyanti Limited for an amount of Shs. 400,000,000.
- First loss payee in respect of all insurance proceeds payable to the company under an all risk insurance policy for the assets charged as security as well as any proceeds payable under the all risk contractor's policy taken out by the company in connection with the construction.

| | Group | | Company | |
|---|--------------|--------------|----------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| | Shs | Shs | Shs | Shs |
| Weighted average effective interest rates at the reporting date were: | | | | |
| Bank borrowings | <u>23.0%</u> | <u>17.3%</u> | <u>-</u> | <u>14.0%</u> |

In the opinion of the directors, the carrying amounts of borrowings and lease obligations approximate to their fair value.

The carrying amounts of the company's borrowings are denominated in Kenya shillings.

NOTES (CONTINUED)

21. Private Placement Bond

| | Group and company | |
|--|--------------------------|-------------|
| | 2018 | 2017 |
| | Shs | Shs |
| Current | | |
| Bond | 500,000,000 | 494,182,71 |
| | | |
| | Group and company | |
| | 2018 | 2017 |
| | Shs | Shs |
| Bond | 500,000,000 | 500,000,00 |
| Expenses attributable to the issuing of the bond | - | (5,817,28 |
| | 500,000,000 | 494,182,71 |

In 2014, the company raised Shs. 500,000,000 through the issue of a 5 year private placement bond. Interest on the corporate bond is at 17% per annum payable semi-annually in arrears. Interest payments on the bond were delayed as at 31 December 2018 and as a result, the bond has been classified as a current liability.

The notes are issued in denominations of Shs. 100,000. The final maturity of the Notes will be 16 December 2019. However, there is early redemption any time after 18 December 2017 by the issuer in whole or in part on any interest payment date on provision of a notice of no more than 90 days or less than 30 days.

The notes are partially secured by first legal charge on land, Unit Number PDS N01 situated on L.R. No 29059, Kiambu included within inventories.

22. Deposit for shares

| | Group | |
|--|--------------|-------------|
| | 2018 | 2017 |
| | Shs | Shs |
| Current | | |
| - Deposits for ordinary shares pending allotment | 93,203,550 | 93,203,55 |
| - Deposits for preference shares pending issue | 81,604,972 | 89,384,97 |
| | 174,808,522 | 182,588,52 |
| | 174,808,522 | 182,588,52 |

The deposits for preference shares pending issue relate to Home Afrika Communities Limited and Kikwetu Development Limited which are both subsidiaries of the parent company.

NOTES (CONTINUED)

22. Deposit for shares (continued)

- (i) Deposits for preference shares pending issue - Home Afrika Communities Limited
 - The members passed an ordinary resolution on 24 June 2013 authorising the issue of 1,000 preference shares of Shs. 600,000 each.
 - The tenure of the preference shares shall be 3 years with the right to receive a cumulative dividend at a rate of 20.5% p.a. to be paid together with capital upon redemption and rank in priority over ordinary shares in repayment.
 - The preference shares are secured by a first legal charge over property unit L.R. No. 29059 PDS W01 (I.R No.133694) measuring 25.31 acres valued at approximately Shs 650,000,000.
- (ii) Deposits for preference shares pending issue - Kikwetu Development Limited
 - The company intends to issue preference shares at a subscription price of Shs. 500,000 each.
 - The tenure of the preference shares shall be 3 years with the right to receive dividend at a rate of 18% per annum.
- (iii) Deposit for ordinary shares pending allotment relates to amounts received with respect to the reservation of shares to minority interest in the subsidiary companies. No shares had been allotted as at the statement of financial position date.

23. Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2017: 30%). The movement on the deferred tax account is as follows:

| | Group | |
|-----------------------------------|---------------------|---------------------|
| | 2018 Shs | 2017 Shs |
| At start of year | 46,877,574 | 83,430,461 |
| Credit to profit or loss (Note 8) | (46,877,574) | (36,552,887) |
| At end of year | - | 46,877,574 |

Group

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

| | At start of year Shs | Charge/(credit) to profit or loss Shs | At end of year Shs |
|--|-------------------------------------|--|-----------------------------------|
| Deferred tax liabilities | | | |
| Fair value gain on investment property | 186,971,838 | - | 186,971,838 |
| Property and equipment | (1,204,086) | 708,872 | (495,214) |
| | <u>185,767,752</u> | <u>708,872</u> | <u>186,476,624</u> |
| Deferred tax assets | | | |
| Other timing differences | 4,890,891 | (4,890,891) | - |
| Tax losses carried forward | (143,781,069) | (50,359,947) | (194,141,016) |
| Deferred tax assets not recognised | - | 7,664,392 | 7,664,392 |
| | <u>(138,890,178)</u> | <u>(47,586,446)</u> | <u>(186,476,624)</u> |
| Net deferred tax liability | <u>46,877,574</u> | <u>(46,877,574)</u> | <u>-</u> |

NOTES (CONTINUED)

23. Deferred tax (continued)

Deferred tax assets on tax losses carried forward are only recognised to the extent of certainty of availability of sufficient future taxable profits to utilise such losses against. Deferred tax assets amounting to Shs. 306,555,378 (2017: Shs. 219,672,321) in respect of tax losses carried forward amounting to Shs. 1,021,851,261 (2017: Shs. 732,241,070) that can be carried forward against future taxable profits have not been recognised. These tax losses expire as follows:

| | Shs | Expiry |
|------------------------------|-------------|------------------|
| - tax losses arising in 2012 | 16,205,533 | 31 December 2021 |
| - tax losses arising in 2013 | 85,589,927 | 31 December 2022 |
| - tax losses arising in 2014 | 35,339,120 | 31 December 2023 |
| - tax losses arising in 2015 | 302,031,430 | 31 December 2024 |
| - tax losses arising in 2016 | 116,532,264 | 31 December 2025 |
| - tax losses arising in 2017 | 176,542,796 | 31 December 2026 |
| - tax losses arising in 2018 | 289,610,191 | 31 December 2027 |

| | Company | |
|--------------------------|---------------------|---------------------|
| | 2018 Shs | 2017 Shs |
| At start of year | (624,639) | (824,324) |
| Charge to profit or loss | <u>624,639</u> | <u>199,685</u> |
| At end of year | <u>-</u> | <u>(624,639)</u> |

| | At start of year Shs | Charge to profit or loss Shs | At end of year Shs |
|------------------------------|-------------------------------------|---|-----------------------------------|
| Deferred tax (assets) | | | |
| Property and equipment | (106,017) | 106,017 | - |
| Intangible assets | <u>(518,622)</u> | <u>518,622</u> | <u>-</u> |
| | <u>(624,639)</u> | <u>624,639</u> | <u>-</u> |

Deferred tax assets amounting to Shs. 149,088,726 (2017: Shs. 113,173,916) in respect of tax losses carried forward amounting to Shs. 496,962,420 (2017: Shs. 377,246,387) that can be carried forward against future taxable profits have not been recognised as there is no certainty of recoverability of such losses. These tax losses expire as follows:

| | Shs | Expiry |
|------------------------------|-------------|------------------|
| - tax losses arising in 2014 | 56,993,897 | 31 December 2023 |
| - tax losses arising in 2015 | 113,378,831 | 31 December 2024 |
| - tax losses arising in 2016 | 75,230,643 | 31 December 2025 |
| - tax losses arising in 2017 | 131,643,016 | 31 December 2026 |
| - tax losses arising in 2018 | 119,716,033 | 31 December 2027 |

NOTES (CONTINUED)

24. Share capital

| | Group and company 2018 Shs | 2017 Shs |
|---|----------------------------------|-------------|
| Authorised: | | |
| 500,000,000 (2017: 500,000,000) ordinary shares of shs. 1 (2017: Shs. 1) each | 500,000,000 | 500,000,000 |
| Issued and fully paid: | | |
| 405,255,320 (2017: 405,255,320) ordinary shares of Shs. 1 (2017: shs.1) each | 405,255,320 | 405,255,320 |

25. Share premium

| | Group and company 2018 Shs | 2017 Shs |
|------------------------------|----------------------------------|-------------|
| At start and end of the year | 68,842,038 | 68,842,038 |

26. Cash from operations

| | Group 2018 Shs | 2017 Shs | Company 2018 Shs | 2017 Shs |
|--|----------------------|---------------|------------------------|---------------|
| Reconciliation of (loss) before tax to cash from operations: | | | | |
| (Loss) before tax | (391,904,755) | (221,014,550) | (129,490,648) | (134,630,604) |
| Adjustments for: | | | | |
| Depreciation on property and equipment (Note 10) | 6,874,919 | 6,809,065 | 3,962,764 | 3,575,521 |
| Amortization intangible assets (Note 12) | 1,266,111 | 756,297 | 1,266,111 | 756,297 |
| Fair value (gain) on investment property (Note 11) | - | (60,828,808) | - | - |
| Loss on disposal | 310,000 | - | 310,000 | - |
| Interest expense (Note 7) | 166,494,777 | 94,036,526 | 20,076,528 | 44,007,415 |
| Changes in working capital: | | | | |
| - inventories | (45,255,709) | (494,419,306) | 129,258,728 | (200,794,495) |
| - trade and other receivables | (18,855,255) | (14,295,760) | 2,505,050 | (7,888,346) |
| - trade and other payables | 290,625,602 | 752,344,577 | (15,142,844) | 317,956,834 |
| - deferred income | 61,642,478 | 17,658,586 | - | - |
| Cash from operations | 71,198,168 | 81,046,627 | 12,745,689 | 22,982,622 |

27. Net debt reconciliation

| | | | | |
|--|---------------|---------------|--------------|--------------|
| Reconciliation of liabilities arising from financing activities: | | | | |
| At start of year: | | | | |
| Borrowings (Note 20) | 707,024,803 | 687,095,878 | - | 13,817,542 |
| Private placement (Note 21) | 494,182,715 | 488,418,287 | 494,182,715 | 488,418,287 |
| Deposit for shares (Note 22) | 182,588,522 | 207,588,548 | - | - |
| | 1,383,796,040 | 1,383,102,713 | 494,182,715 | 502,235,829 |
| Interest on borrowings charged to profit or loss | 160,677,492 | 88,272,098 | 20,076,528 | 38,242,987 |
| Interest on borrowings capitalised to inventory net of interest accruals included under trade and other payables | 1,962,715 | 1,411,293 | - | 6,302,185 |
| Cash flows: | | | | |
| - Operating activities (interest paid) | (11,644,764) | (40,757,824) | (14,259,243) | (38,780,744) |
| - Repayments of long-term borrowings | (53,007,637) | (48,232,240) | - | (13,817,542) |
| At end of year | 1,481,783,846 | 1,383,796,040 | 500,000,000 | 494,182,715 |
| Representing: | | | | |
| Borrowings (Note 20) | 803,049,894 | 707,024,803 | - | - |
| Private placement (Note 21) | 500,000,000 | 494,182,715 | 500,000,000 | 494,182,715 |
| Deposit for shares (Note 22) | 174,808,522 | 182,588,522 | - | - |
| | 1,477,858,416 | 1,383,796,040 | 500,000,000 | 494,182,715 |

NOTES (CONTINUED)

28. Related party transactions and balances

The nature of related parties is through common directorship and shareholding.

The following transactions were carried out with related parties:

i) Key management personnel compensation

| | Group | | Company | |
|------------------------------|-------------|-------------|-------------|-------------|
| | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs |
| Short term employee benefits | 31,985,228 | 56,351,154 | 2,550,000 | 52,072,582 |

ii) Outstanding balances arising from payments to/received from related parties

| | Group | | Company | |
|--|-------------|-------------|-------------|-------------|
| | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs |
| Receivable from related parties (Note 16) | 8,098,934 | 39,819,197 | 22,198,301 | 823,712,729 |
| Receivables from related parties can be analysed as follows: | | | | |
| - Subsidiaries | - | - | 22,198,301 | 792,230,184 |
| - Other related parties | 8,098,934 | 39,819,197 | - | 31,482,545 |
| | 8,098,934 | 39,819,197 | 22,198,301 | 823,712,729 |

The amounts receivable from related parties are interest free, have no specific dates of repayment and are unsecured.

iii) Outstanding balances arising from payments to/received from related parties

| | Group | | Company | |
|---|-------------|-------------|-------------|-------------|
| | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs |
| Payable to related parties (Note 19) | 77,345,722 | 99,837,598 | 249,224,129 | 204,558,982 |
| Payables from related parties can be analysed as follows: | | | | |
| - Subsidiaries | - | - | 173,863,479 | 126,178,036 |
| - Other related parties e.g. Directors, shareholders | 77,345,722 | 99,837,598 | 75,360,650 | 78,380,946 |
| | 77,345,722 | 99,837,598 | 249,224,129 | 204,558,982 |

The amounts payable to related parties are interest free, have no specific dates of repayment and are unsecured.

NOTES (CONTINUED)

29. Risk management objectives and policies

Financial risk management

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

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

(a) Market risk

- Interest rate risk

The group's exposure to interest rate risk arises from non-current borrowings/current borrowings. Financial assets and liabilities obtained at different rates expose the company to interest rate risk.

At 31 December 2018, if interest rates at that date had been 1 percentage point lower with all other variables held constant, post-tax loss for the year would have been Shs. 5,621,349 (2017: 4,949,174) lower, arising mainly as a result of lower interest expense on variable rate borrowings. The effect would be the opposite were interest rates to be 1% higher. 1% represents the maximum expected high change in rates.

(b) Credit risk

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

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

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

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

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

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

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

NOTES (CONTINUED)

29. Risk management objectives and policies (continued)

Financial risk management (continued)

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

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

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date of the group and company was as follows:

Group

| Basis for measurement of loss allowance | 12-month expected credit losses | Lifetime expected credit losses (see note below) | | | Total Shs |
|--|--|---|------------|--------------|--------------|
| | | a) Shs | b) Shs | c) Shs | |
| As at 31 December 2018 | Shs | Shs | Shs | Shs | Shs |
| Trade receivables | - | - | - | 24,000,000 | 24,000,000 |
| Other receivables | - | - | - | 6,848,540 | 6,848,540 |
| Deposits and prepayments | - | - | - | 54,559,709 | 54,559,709 |
| Shareholders account | - | - | - | 500,000 | 500,000 |
| Receivables from related parties | - | - | - | 67,753,206 | 67,753,206 |
| Gross carrying amount | - | - | - | 153,661,455 | 153,661,455 |
| Loss allowance | - | - | - | (62,987,869) | (62,987,869) |
| Exposure to credit risk | - | - | - | 90,673,586 | 90,673,586 |

Company

| Basis for measurement of loss allowance | 12-month expected credit losses | Lifetime expected credit losses (see note below) | | | Total Shs |
|--|--|---|------------|---------------|---------------|
| | | a) Shs | b) Shs | c) Shs | |
| As at 31 December 2018 | Shs | Shs | Shs | Shs | Shs |
| Other receivables | - | - | - | 6,748,940 | 6,748,940 |
| Deposits and prepayments | - | - | - | 2,690,247 | 2,690,247 |
| Receivables from related parties | - | - | - | 822,883,612 | 822,883,612 |
| Gross carrying amount | - | - | - | 832,322,799 | 832,322,799 |
| Loss allowance | - | - | - | (800,685,311) | (800,685,311) |
| Exposure to credit risk | - | - | - | 31,637,488 | 31,637,488 |

NOTES (CONTINUED)

29. Risk management objectives and policies (continued)

Financial risk management (continued)

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

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

The following table reconciles the movement of the loss allowance for 2017 and 2018 for group:

| | Group | | Company | |
|---|-------------------|-------------------|--------------------|-------------|
| | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs |
| Movement in impairment provision | | | | |
| At start of year - as previously stated | 24,000,000 | 24,000,000 | - | - |
| Prior year adjustment | | | | |
| - IFRS 9 transition impact | 28,294,227 | - | 792,485,435 | - |
| At start of year - restated | 52,294,227 | 24,000,000 | 792,485,435 | - |
| Additional provision | 10,693,642 | - | 8,199,876 | - |
| At end of year | <u>62,987,869</u> | <u>24,000,000</u> | <u>800,685,311</u> | <u>-</u> |

(c) Liquidity risk

Cash flow forecasting is performed by the finance department of the group by monitoring the company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the group does not breach borrowing limits or covenants on any of its borrowing facilities.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

Notes 21 and 20 disclose the maturity analysis of borrowings and trade and other payables respectively.

NOTES (CONTINUED)

29. Risk management objectives and policies (continued)

(c) Liquidity risk (continued) *

The following table details the group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the group can be required to pay.

Group

Year ended 31 December 2018

| | Interest rate % | Less than 1 year Shs | 1 - 5 years Shs | More than 5 years Shs | Total Shs |
|----------------------------------|-----------------------|----------------------------|--------------------|-----------------------------|----------------------|
| Interest bearing liabilities | | | | | |
| - Bank loans | 23.0% | 959,644,623 | - | - | 959,644,623 |
| - Private placement bond | 17.0% | 500,000,000 | - | - | 500,000,000 |
| Non-interest bearing liabilities | | | | | |
| - Deposit for shares | - | 174,808,522 | - | - | 174,808,522 |
| - Trade and other payables | - | 3,073,316,524 | - | - | 3,073,316,524 |
| | | <u>4,707,769,669</u> | <u>-</u> | <u>-</u> | <u>4,707,769,669</u> |

Year ended 31 December 2017

| | | | | | |
|----------------------------------|-------|----------------------|-------------------|----------|----------------------|
| Interest bearing liabilities | | | | | |
| - Bank loans | 17.3% | 844,894,640 | - | - | 844,894,640 |
| - Private placement bond | 17.0% | 500,000,000 | - | - | 500,000,000 |
| Non-interest bearing liabilities | | | | | |
| - Deposit for shares | - | 182,588,522 | - | - | 182,588,522 |
| - Trade and other payables | - | 2,496,422,500 | - | - | 2,496,422,500 |
| | | <u>4,023,905,662</u> | <u>96,253,550</u> | <u>-</u> | <u>4,023,905,662</u> |

Company

Year ended 31 December 2018

| | Interest rate % | Less than 1 year Shs | 1 - 5 years Shs | More than 5 years Shs | Total Shs |
|----------------------------------|-----------------------|----------------------------|--------------------|-----------------------------|----------------------|
| Interest bearing liabilities | | | | | |
| - Corporate bond | 17.0% | 500,000,000 | - | - | 500,000,000 |
| Non-interest bearing liabilities | | | | | |
| - Trade and other payables | | 747,729,385 | - | - | 747,729,385 |
| | | <u>1,247,729,385</u> | <u>-</u> | <u>-</u> | <u>1,247,729,385</u> |

Year ended 31 December 2017

| | | | | | |
|----------------------------------|-------|----------------------|----------|----------|----------------------|
| Interest bearing liabilities | | | | | |
| - Corporate bond | 17.0% | 500,000,000 | - | - | 500,000,000 |
| Non-interest bearing liabilities | | | | | |
| - Trade and other payables | - | 762,872,229 | - | - | 762,872,229 |
| | | <u>1,262,872,229</u> | <u>-</u> | <u>-</u> | <u>1,262,872,229</u> |

NOTES (CONTINUED)

30. Capital management

Internally imposed capital requirements

- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk;
- to comply with the capital requirements set out by the group's bankers;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong asset base to support the development of business.
- to maintain an optimal capital structure to reduce the cost of capital.

The group 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 assets. 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 divided capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Capital comprises all components of equity (i.e. share capital, share premium and other reserves retained earnings).

Due to accumulated losses, the group is entirely funded by its lenders.

31. Contingent liabilities

The group is in receipt of certain claims for damages and other remuneration from former employees. Amounts payable based on agreement entered into with the former employees as of the date of approval of these financial statements have been provided for where material. Disputed amounts have not been provided for as the company does not believe these are payable based on legal and other advice received. It is not possible to predict with certainty any further amounts that are payable following completion of the ongoing discussions in this regard.

Home Afrika Communities Limited (a subsidiary) received preliminary claims from the Kenya Revenue Authority. The company has disputed the assessment and lodged a formal objection through their tax consultant. There has been no further development in this regard. No provision for this has been recognised in these financial statements based on defences available against such claims. It is not possible to determine with certainty the amounts that may be payable.

The group is also subject to claims which arise in the ordinary course of business. No provisions for such claims have been recognised as the directors are of the opinion that no material loss will arise from such claims.

32. Incorporation

Home Afrika Limited is incorporated in Kenya under the Companies Act as a public limited liability company and is domiciled in Kenya.

33. Prior year adjustments

The comparative financial statements for the year ended 31 December 2017 have been restated to reflect provision for other liabilities arising from PDS plots that had previously been transferred to a separate group entity, Migaa PDS Limited. A provision of Shs. 286 million has been made including minority interest adjustment on the transfers.

34. Presentation currency

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

SCHEDULE OF EXPENDITURE

| 1. SELLING AND DISTRIBUTION EXPENSES | Group | | Company | |
|--|--------------------|--------------------|--------------------|-------------------|
| | 2018 Shs | 2017 Shs | 2018 Shs | 2017 Shs |
| Marketing fees | 8,659,790 | 10,190,669 | 2,600,673 | 3,892,121 |
| Commissions | 2,928,920 | 26,664,414 | 327,600 | 4,309,373 |
| Advertising and sales promotion | 1,492,318 | 1,827,303 | 1,523,717 | 1,483,123 |
| Total selling and distribution expenses | 13,081,028 | 38,682,386 | 4,451,990 | 9,684,617 |
| 2. ADMINISTRATIVE EXPENSES | | | | |
| Employment: | | | | |
| Salaries and wages | 100,924,319 | 78,479,371 | 61,218,429 | 30,699,533 |
| Medical | 5,576,769 | 7,918,993 | 1,556,696 | 3,610,094 |
| Staff training and welfare | 6,374,430 | 3,371,270 | 2,139,114 | 1,818,688 |
| Total employment costs | 112,875,518 | 89,769,634 | 64,914,239 | 36,128,315 |
| Other administrative expenses: | | | | |
| Directors and Committee allowance | 31,985,228 | 23,493,572 | 2,550,000 | 19,215,000 |
| Provision for doubtful debts | 10,693,642 | - | 8,199,876 | - |
| Meetings expenses | 2,928,640 | 2,059,339 | 2,928,640 | 2,053,089 |
| Legal and professional fees | 45,149,008 | 37,446,674 | 19,969,582 | 17,032,693 |
| Vehicle running | 2,579,862 | 1,450,029 | 1,211,481 | 402,546 |
| Office expenses | 1,324,339 | 2,927,478 | 777,491 | 671,054 |
| Postages and telephones | 2,906,603 | 2,122,052 | 1,835,468 | 2,102,852 |
| Audit fees | | | | |
| - current year | 3,686,000 | 3,686,000 | 600,000 | 600,000 |
| - under provision in prior years | 311,944 | 89,144 | - | 106,000 |
| Travelling and accommodation | 2,208,829 | 606,586 | 659,909 | 561,306 |
| Donations | 842,217 | 672,582 | 126,500 | 472,582 |
| Computer expenses | 3,259,532 | 1,661,388 | 2,701,059 | 1,170,542 |
| Printing and stationery | 369,963 | 1,292,238 | 363,478 | 1,071,629 |
| Bank charges and commissions | 746,963 | 566,026 | 292,961 | 252,045 |
| Secretarial fees | 1,126,079 | 1,211,032 | 1,126,079 | 1,211,032 |
| Total other administrative expenses | 110,118,849 | 79,284,140 | 43,342,524 | 46,922,370 |
| Total administrative expenses | 222,994,367 | 169,053,774 | 108,256,763 | 83,050,685 |
| 3. OTHER OPERATING EXPENSES | | | | |
| Establishment: | | | | |
| Depreciation on property and equipment | 6,874,919 | 6,809,065 | 3,962,764 | 3,575,521 |
| Repairs and maintenance | 3,270,039 | 1,389,988 | 573,503 | 312,068 |
| Service charge | 1,246,431 | 2,883,604 | 1,246,431 | 2,883,604 |
| Insurance | 2,511,875 | 1,529,550 | 1,525,611 | 1,011,326 |
| Security | 11,826,382 | 11,907,832 | - | - |
| Amortization intangible asset | 1,266,111 | 756,297 | 1,266,111 | 756,297 |
| Electricity | 2,074,385 | 3,158,144 | 335,311 | 366,336 |
| Loss on disposal of property and equipment | 310,000 | - | 310,000 | - |
| Rent | 102,300 | 157,300 | - | - |
| Licence and subscriptions | 284,693 | 945,946 | 235,193 | 375,926 |
| Total other operating expenses | 29,767,135 | 29,537,726 | 9,454,924 | 9,281,078 |