HOME AFRIKA LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

The following pages do not form an integral part of these financial statements

COMPANY INFORMATION

BOARD OF DIRECTORS	:	Peter Nduati
	:	Dan Ochieng Awendo
	:	Mbugua Gecaga
	:	Caroline Jebet Kigen
	:	Luke Mwiti Kinoti (Appointed 24 July 2019)
	:	Peter Mungai Ndung'u (Appointed 31 October 2019)
	:	Kendi Ogamba (Appointed 31 October 2019)
	:	Linus Gitahi (Resigned 05 September 2019)
	:	Ketan Shah (Resigned 30 September 2019)
	:	Rachel Mbai (Resigned 07 October 2019)
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 LLP
	:	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

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2019, 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 2019 the total turnover of the group increased from Shs. 109,038,521 to Shs. 362,979,327. This is attributed to more plots sales made in the current year compared to prior year and increase in percentage of completion. The loss for the year increased from Shs. 346,205,088 to Shs. 888,808,078.

As at 31 December 2019, the net liability position of the group was Shs. 1,941,178,255 compared to Shs. 1,052,370,177 as at 31 December 2018.

	Group		Company	
Key performance indicators	**2019 Shs**	**2018 Shs**	**2019 Shs**	**2018 Shs**
Turnover (Shs)	362,979,327	109,038,521	9,670,000	15,181,000
Gross profit (Shs)	3,632,299	26,757,483	7,206,305	6,122,272
Gross profit margin (%)	1%	25%	75%	40%
EBITDA	(624,533,103)	(231,227,263)	(128,568,991)	(115,231,405)
(Loss) for the year (Shs)	(888,808,078)	(346,205,088)	(188,588,603)	(130,115,287)
Net (liabilities) (Shs)	(1,941,178,255)	(1,052,370,177)	(1,079,778,169)	(891,189,566)

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.

Other factors such as the impact of the recent coronavirus outbreak pose a challenge to the business. Whilst at this stage it is too early to predict the full potential impact of this outbreak on the company's operations, the directors continue to monitor this situation closely with a view to assessing and mitigating its impact on the company.

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 (2019: Nil).

DIRECTORS' REMUNERATION REPORT

INTRODUCTION

The members of the Board Nominations & Remunerations Committee 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: -

Nominations & Remunerations Committee

	12-Feb	23-Apr	Total Meetings Attended
Rachel Mbai - Chairpeson	✓	✓	2
Linus Gitahi	✓	✓	2
Caroline Kigen	×	×	0
Dan Awendo	✓	✓	2

KEY

✓	Present
×	Absent

The BNRC's responsibilities have been set by the Board and are outlined in the Board Charter and the Committees 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. This is the inaugural report under the new Companies Act 2015 and the regulations. Accordingly, the Company is presenting the existing remuneration policy with 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.

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.

Share options and long-term incentive scheme

All 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.

The following table shows single figure remuneration for the Executive Director, Chairman and Non-Executive Directors in respect of qualifying services for the year ended 31 Dec 2019 together with the comparative figures for 2018 for Home Afrika Group.

a) **Home Afrika Limited**

#	Year ended 31 December 2019 Name	Salary Shs.	Meeting attendance fees Shs.	Total Shs.
1	Linus Gitahi -Chairperson Up to September 2019	-	200,000	200,000
2	Ketan Shah	-	325,000	325,000
3	Mbugua Gecaga	-	400,000	400,000
4	Rachel Mbai	-	225,000	225,000
5	Caroline Kigen	-	150,000	150,000
6	Peter Nduati – Chairperson from October 2019	-	450,000	450,000
7	Luke Kinoti	-	150,000	150,000
8	Kendi Ogamba	-	50,000	50,000
9	Peter Mungai	-	50,000	50,000
7	Dan Awendo	19,635,216	-	19,635,216
	TOTAL	**19,635,216**	**2,000,000**	**21,635,216**

b) Mitini Scapes Development Limited

#	Year Ended 31 December 2019 Name	Salary	Meeting Attendance fees	Total
		Shs.	Shs.	Shs.
1	Boniface Kamau - Chairperson	-	225,000	225,000
2	Susan Kasinga	-	-	-
3	Geoffrey Kamau	-	150,000	150,000
4	Jack Waihenya	-	150,000	150,000
5	Barth Ragalo	-	-	-
6	Connie Gakonyo	-	-	-
7	Mbugua Gecaga	-	150,000	150,000
8	Winnie Ngumi	-	50,000	50,000
	TOTAL	-	**725,000**	**725,000**

#	Year Ended 31 December 2018 Name	Salary	Meeting Attendance fees	Total
		Shs.	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**

d) Suburban Limited

#	Year Ended 31 December 2019 Name	Salary	Meeting Attendance fees	Total
		Shs.	Shs.	Shs.
1	Dr. Mbira Gikonyo-Chairperson	-	780,714	780,714
2	Dan Awendo	-	225,714	225,714
3	Geoffrey Luseno	-	780,714	780,714
	TOTAL		**1,787,142**	**1,787,142**

	Year Ended 31 December 2018 Name	Salary	Meeting Attendance fees	Total
		Shs.	Shs.	Shs.
1	Dr. Mbira Gikonyo-Chairperson	-	571,428	571,428
2	Dan Awendo	-	571,428	571,428
3	Geoffrey Luseno	-	571,428	571,428
	TOTAL		**1,714,284**	**1,714,284**

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.

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

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

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 2019 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 May 2020 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 18 to 60, which comprise the consolidated and company statements of financial position as at 31 December 2019, 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 the basis for our disclaimer of opinion:

(i) The financial statements indicate that the group incurred a net loss of Shs. 888,808,078 for the year ended 31 December 2019, and as of that date, the group had net current liabilities of Shs. 2,333,637,768 and a deficiency in shareholders funds of Shs. 1,941,178,255. 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 determine whether the use of the going concern assumption is appropriate and, if 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) Included within trade and other receivables are amounts a receivable from related parties amounting to Shs. 343,520,531 which arose on the sale of certain inventory to the related party (recognised as revenue of Shs. 177,050,481 and deferred income of Shs. 166,470,049). We have not obtained sufficient appropriate audit evidence in respect of the measurement and recoverability of these transactions and balances.

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PKF

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

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.

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 LLP

Certified Public Accountants
Nairobi

30-05- **2020**

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

540/20

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2019 Shs	2018 Shs
Revenue from contracts with customers	3	362,979,327	109,038,521
Cost of sales		(359,347,028)	(82,281,038)
Gross profit		3,632,299	26,757,483
Other operating income	4	18,068,523	7,857,784
Selling and distribution expenses		(30,207,196)	(13,081,028)
Administrative expenses		(201,250,081)	(222,994,367)
Other operating expenses		(31,678,727)	(29,767,135)
Impairment provision on inventories	15	(390,531,081)	-
Operating (loss)	5	(631,966,263)	(231,227,263)
Finance costs	7	(254,635,675)	(160,677,492)
(Loss) before tax		(886,601,938)	(391,904,755)
Tax credit	8	(2,206,140)	45,699,667
(Loss) for the year		(888,808,078)	(346,205,088)
Total comprehensive (loss) for the year		(888,808,078)	(346,205,088)
(Loss) attributable to:			
- Owners of the parent		(625,855,602)	(276,019,820)
- Non-controlling interest		(262,952,476)	(70,185,268)
		(888,808,078)	(346,205,088)
(Loss) per share (Shs) - basic and diluted	9	(1.54)	(0.68)

The notes on pages 26 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 16 and 17.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31st December 2019 Shs	2018 Shs
Non-current assets			
Property and equipment	10	51,834,069	53,055,372
Investment property	11	338,741,824	624,504,231
Intangible assets	12	1,881,620	2,570,588
Financial assets	14	2,000	2,000
		392,459,513	680,132,191
Current assets			
Inventories	15	3,536,340,008	3,742,984,754
Trade and other receivables	16	408,020,235	70,007,183
Cash and cash equivalents	17	10,988,166	9,338,188
		3,955,348,409	3,822,330,125
Total assets		4,347,807,922	4,502,462,316
Current liabilities			
Deferred income	18	1,222,850,867	998,427,582
Trade and other payables	19	1,630,155,699	1,440,783,140
Deposit from sale of plots and units	19	1,839,483,416	1,632,533,384
Borrowings	20	921,560,824	803,049,894
Private placement bond	21	500,000,000	500,000,000
Deposit for shares	22	168,972,272	174,808,522
Current tax		5,963,099	5,229,971
		6,288,986,177	5,554,832,493
Net current (liabilities)		(2,333,637,768)	(1,732,502,368)
Total liabilities		6,288,986,177	5,554,832,493
Net (liabilities)		(1,941,178,255)	(1,052,370,177)
EQUITY			
Share capital	24	405,255,320	405,255,320
Share premium	25	68,842,038	68,842,038
Accumulated deficit		(1,990,613,137)	(1,364,757,535)
Equity attributed to owners of the company		(1,516,515,779)	(890,660,177)
Non-controlling interest		(424,662,476)	(161,710,000)
Total equity		(1,941,178,255)	(1,052,370,177)

The financial statements on pages 18 to 60 were approved and authorised for issue by the Board of Directors on ____________ 2020 and were signed on its behalf by:

____________ DIRECTOR ____________ DIRECTOR

The notes on pages 26 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 16 and 17.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 31st December 2019 Shs	2018 Shs
Non-current assets			
Property and equipment	10	55,319,959	56,309,192
Intangible assets	12	1,881,620	2,570,588
Investment in subsidiaries	13	76,986,247	76,986,247
Financial assets	14	2,000	2,000
		134,189,826	135,868,027
Current assets			
Inventories	15	262,457,335	186,535,767
Trade and other receivables	16	33,310,445	31,637,488
Cash and cash equivalents	17	8,759,337	2,771,118
		304,527,117	220,944,373
Total assets		438,716,943	356,812,400
Current liabilities			
Trade and other payables	19	595,150,131	533,441,584
Deposit from sale of plots and units	19	423,072,400	214,287,801
Private placement bond	21	500,000,000	500,000,000
Current tax		272,581	272,581
		1,518,495,112	1,248,001,966
Net current (liabilities)		(1,213,967,995)	(1,027,057,593)
Net assets		(1,079,778,169)	(891,189,566)
EQUITY			
Share capital	25	405,255,320	405,255,320
Share premium	26	68,842,038	68,842,038
Accumulated deficit		(1,553,875,527)	(1,365,286,924)
Total equity		(1,079,778,169)	(891,189,566)

The financial statements on pages 18 to 60 were approved and authorised for issue by the Board of Directors on 30 May 2020 and were signed on its behalf by:

Hayanlouga George DIRECTOR

DIRECTOR

The notes on pages 26 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 16 and 17.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	Share premium Shs	Retained earnings Shs	Total Shs
At start of year	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	405,255,320	68,842,038	(1,365,286,924)	(891,189,566)
Year ended 31 December 2019				
At start of year	405,255,320	68,842,038	(1,365,286,924)	(891,189,566)
Total comprehensive (loss) for the year	-	-	(188,588,603)	(188,588,603)
At end of year	405,255,320	68,842,038	(1,553,875,527)	(1,079,778,169)

The notes on pages 26 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 16 and 17.

COMPANY STATEMENT OF CASH FLOWS

	Notes	2019 Shs	2018 Shs
Operating activities			
Cash from operations	26	64,329,630	12,745,689
Interest paid	27	(55,115,712)	(14,259,243)
Tax paid		-	(238,095)
Net cash from/(used in) operating activities		9,213,918	(1,751,649)
Investing activities			
Cash paid for purchase of property and equipment	10	(2,987,899)	(2,298,979)
Cash paid for purchase of intangible assets	12	(237,800)	(3,836,699)
Proceeds from disposal of property and equipment		-	540,000
Net cash (used in) investing activities		(3,225,699)	(5,595,678)
Increase/(decrease) in cash and cash equivalents		5,988,219	(7,347,327)
Movements in cash and cash equivalents			
At start of year		2,771,118	10,118,445
Increase/(decrease)		5,988,219	(7,347,327)
At end of year	17	8,759,337	2,771,118

The notes on pages 26 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 16 and 17.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New standards, amendments and interpretations 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 2019 have been adopted by the group. Of those, none had a material effect on the group's financial statements.

International Financial Reporting Standard 16 (IFRS 16): Leases

The following, which became effective from 1 January 2019, have been adopted but have not had a significant impact on the group's financial statements.

- From 1 January 2019, to comply with IFRS 16, Leases, which replaced IAS 17, Leases, the group now recognises lease liabilities relating to leases for assets (other than those that are held with a view to resale in the ordinary course of business) under which the group is the lessee that had previously been classified as operating leases (other than leases with less than 12 months to run from 1 January 2019 and leases of low value items). The adoption of this standard had no significant impact to the financial statements.

- 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.

- 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 amostised cost classification.

- Amendments to IFRS 11 'Joint Arrangements ' effective for annual periods beginning on or after 1 January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests.

- 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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) 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.

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.

e) 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.

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

h) **Financial instruments (continued)**

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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Taxation (continued)

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.

o) Accounting for leases

The group as lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the group recognises a right-of-use asset and a lease liability. Also excluded from such measurement are leases of land held as inventory for sale in the ordinary course of business which are carried as inventory and revenue therefrom accounted for under revenue accounting policy.

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

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

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

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

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

p) 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.

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, the company recognised revenue relating to a related party of Shs. 177,050,481. No other single customer represents more than 10% of the total group turnover (2018: Nil).

3. Revenue from contracts with customers

	Group		Company	
	2019 Shs	**2018 Shs**	**2019 Shs**	**2018 Shs**
Recognised over time:				
- Revenue from sale of property	362,979,327	109,038,521	9,670,000	15,181,000

4. Other operating income

	Group 2019 Shs	Group 2018 Shs	Company 2019 Shs	Company 2018 Shs
Rental income	7,353,800	5,336,534	-	-
Other income	10,714,723	2,521,250	5,194,791	810,000
	18,068,523	7,857,784	5,194,791	810,000

8. Tax

	Group 2019 Shs	Group 2018 Shs	Company 2019 Shs	Company 2018 Shs
Current tax	2,206,140	1,177,907	-	-
Deferred tax (credit)/charge (Note 24)	-	(46,877,574)	-	624,639
	2,206,140	(45,699,667)	-	624,639

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

	Group 2019 Shs	Group 2018 Shs	Company 2019 Shs	Company 2018 Shs
(Loss) before tax	(886,601,938)	(391,904,755)	(188,588,603)	(129,490,648)
Tax calculated at a tax rate of 30% (2018: 30%)	(265,980,581)	(117,571,427)	(56,576,581)	(38,847,194)
Tax effect of:				
- income and expenses not taxable/allowable	154,830,964	(22,675,689)	68,516	2,533,760
- tax losses and other temporary differences on which deferred tax has not been recognised	113,355,757	94,547,449	56,508,065	36,313,434
- Deferred tax for prior year written off	-	-	-	624,639
	2,206,140	(45,699,667)	-	624,639

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 2019 Shs	Group 2018 Shs	Company 2019 Shs	Company 2018 Shs
Net (loss) attributable to shareholders	(625,855,602)	(276,019,820)	(188,588,603)	(130,115,287)
Weighted average number of ordinary shares	405,255,320	405,255,320	405,255,320	405,255,320
(Loss) per share - basic and diluted	(1.54)	(0.68)	(0.47)	(0.32)

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

Company

Year ended 31 December 2019	**Building Shs**	**Motor vehicles Shs**	**Computer equipment Shs**	**Furniture and fittings Shs**	**Office equipment Shs**	**Total Shs**
Cost						
At start of year	56,994,527	3,681,624	5,308,025	17,228,948	5,026,516	88,239,640
Additions	-	1,266,000	952,200	82,200	687,499	2,987,899
At end of year	56,994,527	4,947,624	6,260,225	17,311,148	5,714,015	91,227,539
Depreciation						
At start of year	12,825,148	3,395,200	3,590,215	9,239,935	2,879,950	31,930,448
Charge for the year	1,424,863	388,106	801,003	1,008,902	354,258	3,977,132
At end of year	14,250,011	3,783,306	4,391,218	10,248,837	3,234,208	35,907,580
Net book value	42,744,516	1,164,318	1,869,007	7,062,311	2,479,807	55,319,959
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

12. Intangible assets

Group	**Computer Software**	**Website costs**	**Total**
Year ended 31 December 2019	**Shs**	**Shs**	**Shs**
Cost			
At start of year	10,271,036	1,183,800	11,454,836
Additions	237,800	-	237,800
At end of year	10,508,836	1,183,800	11,692,636
Amortisation			
At start of year	7,700,448	1,183,800	8,884,248
Amortisation for the year	926,768	-	926,768
At end of year	8,627,216	1,183,800	9,811,016
Net book value	1,881,620	-	1,881,620
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

Company	**Computer software**	
	2019	**2018**
Cost	**Shs**	**Shs**
At start of year	10,271,036	6,434,337
Additions	237,800	3,836,699
At end of year	10,508,836	10,271,036
Amortisation		
At start of year	7,700,448	6,434,337
Amortisation for the year	926,768	1,266,111
At end of year	8,627,216	7,700,448
Net book value	1,881,620	2,570,588

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.

	Home Afrika Communities Limited		Suburban Limited		Moru Ridge Limited	
	2019 Shs	2018 Shs	2019 Shs	2018 Shs	2019 Shs	2018 Shs
Current assets	2,232,237,932	1,740,807,363	70,731,029	72,250,972	910,233,184	1,300,764,225
Non-current assets	351,322,741	636,798,321	452,242	531,649	9,647	13,782
Current liabilities	(2,836,549,698)	(2,436,538,749)	(123,745,062)	(134,285,638)	(1,594,024,869)	(1,460,045,588)
Non-controlling interests	(96,004,146)	(38,781,763)	(48,981,185)	(53,451,799)	(273,512,814)	(63,707,032)

14. Financial assets

Available-for-sale	**Incorporation**		**Group and company 2019 Shs**	**2018 Shs**
Morningside Office Park Limited	Kenya	12%	2,000	2,000

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

15. Inventories

	Group		**Company**	
	2019 Shs	**2018 Shs**	**2019 Shs**	**2018 Shs**
Plots held for sale	776,495,265	515,642,873	262,457,335	186,535,767
Units held for sale	333,470,438	389,332,764	-	-
Work in progress	2,816,905,386	2,838,009,117	-	-
Less: impairment provision	(390,531,081)			
	3,536,340,008	3,742,984,754	262,457,335	186,535,767

Inventory with a cost amounting to Shs. 106,878,163 have been pledged as security against deposit for preference shares as disclosed in Note 22.

Inventory with a cost amounting to Shs. 36,405,588 have been pledged as security against private placement bond as disclosed in Note 21.

Borrowing costs (net of releases to cost of sales on completed and sold inventory) amounting to Shs. 51 million (2018: 83.5 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. 165 million (2018: Shs. 65 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 cummulative costs amounting to Shs. 1.168 billion. The said residential apartments have been subject to repossession by the bank as a collaterial to a bank loan. 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 cummulative costs so far incurred in putting up the residential blocks. There is therefore indication of impairment of this inventories. The directors had an independent valuation performed by a qualified valuer, to establish the replacement cost of the residential apartments. An impairment loss of Shs. 390 million has been recognised in the financial statements to adjust the carrying value of the inventory to match the net realisable value as at 31 December 2019.

16. Trade and other receivables

	Group		**Company**	
	2019 Shs	**2018 Shs**	**2019 Shs**	**2018 Shs**
Current				
Trade receivables	25,880,001	24,000,000	-	-
Less: impairment provision	(24,000,000)	(24,000,000)	-	-
Net trade receivables	1,880,001	-	-	-
Other receivables	7,140,365	6,848,540	175,808	6,748,940
Deposits and prepayments	46,208,695	54,559,709	1,369,876	2,690,247
Shareholders account	500,000	500,000	-	-
Receivables from related parties (Note 28(iii))	391,279,043	47,086,803	842,729,101	822,883,612
Less: impairment provision	(38,987,869)	(38,987,869)	(810,964,340)	(800,685,311)
	408,020,235	70,007,183	33,310,445	31,637,488

19. **Trade and other payables (continued)**

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

Year ended 31 December 2019

	0 to 1 month Shs	2 to 3 months Shs	4 to 12 months Shs	Total Shs
Trade payables	24,681,666	200,664,469	242,090,341	467,436,476
Accruals	174,608,362	215,666,323	289,977,418	680,252,103
Provision for other liabilities	-	-	286,268,422	286,268,422
Deposit from sale of plots and units	-	-	1,839,483,416	1,839,483,416
Deposit for service charge and shares	-	2,103,933	85,276,912	24,459,750
Other payables	-	12,395,646	71,962,457	87,380,845
Payable to related parties	-	-	84,358,103	84,358,103
	199,290,028	430,830,371	2,899,417,069	3,469,639,115

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
	172,904,042	518,181,853	2,438,356,601	3,073,316,524

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

Year ended 31 December 2019

	0 to 1 month Shs	2 to 3 months Shs	4 to 12 months Shs	Total Shs
Trade payables	40,840,912	25,405,802	4,461,332	70,708,046
Accruals	27,240,668	70,132,522	126,873,293	224,246,483
Deposit from sale of plots	56,447,728	366,624,672	-	423,072,400
Other payables	-	3,580,449	36,775,960	40,356,409
Payable to related parties	-	-	259,839,193	259,839,193
	124,529,308	465,743,445	427,949,778	1,018,222,531

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
	105,291,198	272,128,737	370,309,450	747,729,385

21. **Private Placement Bond**

	Group and company	
	2019	**2018**
	Shs	**Shs**
Current		
Bond	500,000,000	500,000,000

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 W01 situated on L.R. No 29059, Kiambu included within inventories.

During the year, the group was in default of covenants under borrowing agreements by non repayment of the principal and interest and the details are as below:

Borrowings from this institution amounted to Shs. 500,000,000 (2018: Shs. 500,000,000) as at the reporting date. Interest payable of Shs. 320,660,028 (2018: Shs. 194,384,288) remained unpaid as at 31 December 2019. The management expects to meet all contractual obligations in the future.

22. **Deposit for shares**

	Group	
	2019	**2018**
	Shs	**Shs**
Current		
- Deposits for ordinary shares pending allotment	93,203,550	93,203,550
- Deposits for preference shares pending issue	75,768,722	81,604,972
	168,972,272	174,808,522
	168,972,272	174,808,522

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.

(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 (continued)

	Company 2019 Shs	2018 Shs
At start of year	-	(624,639)
(Credit)/charge to profit or loss	-	624,639
At end of year	-	-

Deferred tax (assets)	At start of year Shs	(Credit)/charge to profit or loss Shs	At end of year Shs
Property and equipment	(106,017)	457,570	351,553
Intangible assets	(518,622)	(20,204)	(538,826)
Tax losses carried forward	(150,399,699)	(56,070,699)	(206,470,398)
Net deferred tax asset	(151,024,338)	(55,633,333)	(206,657,671)
Deferred tax assets not recognised	151,024,338	55,633,333	206,657,671
	-	-	-

Deferred tax assets amounting to Shs. 204,221,729 (2018: Shs. 150399,699) in respect of tax losses carried froward amounting to Shs. 680,739,096 (2018: Shs. 501,332,329) 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	79,600,553	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
- tax losses arising in 2019	186,902,329	31 December 2028

24. Share capital

	Group and company 2019 Shs	2018 Shs
Authorised:		
500,000,000 (2018: 500,000,000) ordinary shares of shs. 1 (2018: Shs. 1) each	500,000,000	500,000,000
Issued and fully paid:		
405,255,320 (2018: 405,255,320) ordinary shares of Shs. 1 (2018: shs. 1) each	405,255,320	405,255,320

25. Share premium

	Group and company 2019 Shs	2018 Shs
At start and end of the year	68,842,038	68,842,038

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) **Sale of goods**

	Group 2019 Shs	Group 2018 Shs
Sale of plots to other related parties - shareholders	343,520,531	-

ii) **Key management personnel compensation**

	Group		Company	
	2019 Shs	2018 Shs	2019 Shs	2018 Shs
Short term employee benefits	9,087,142	31,985,228	2,000,000	2,550,000

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

	Group		Company	
	2019 Shs	2018 Shs	2019 Shs	2018 Shs
Receivable from related parties (Note 16)	352,291,174	8,098,934	31,764,761	22,198,301
Receivables from related parties can be analysed as follows:				
- Subsidiaries	-	-	31,764,761	22,198,301
- Other related parties	352,291,174	8,098,934	-	-
	352,291,174	8,098,934	31,764,761	22,198,301

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

iv) **Outstanding balances arising from payments to/received from related parties**

	Group		Company	
	2019 Shs	2018 Shs	2019 Shs	2018 Shs
Payable to related parties (Note 19)	84,358,103	77,345,722	259,839,193	249,224,129
Payables from related parties can be analysed as follows:				
- Subsidiaries	-	-	184,478,543	173,863,479
- Other related parties e.g. Directors, shareholders	84,358,103	77,345,722	75,360,650	75,360,650
	84,358,103	77,345,722	259,839,193	249,224,129

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

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 was as follows:

Group

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses (see note below)			
		a)	b)	c)	Total
As at 31 December 2019	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**
Trade receivables	-	-	-	1,880,001	1,880,001
Other receivables	-	-	-	7,140,365	7,140,365
Deposits and prepayments	-	-	-	46,208,695	46,208,695
Shareholders account	-	-	-	500,000	500,000
Receivables from related parties	-	-	-	391,279,043	391,279,043
Gross carrying amount	-	-	-	447,008,104	447,008,104
Loss allowance	-	-	-	(38,987,869)	(38,987,869)
Exposure to credit risk	-	-	-	408,020,235	408,020,235
As at 31 December 2018					
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	-	-	-	47,086,803	47,086,803
Gross carrying amount	-	-	-	108,995,052	108,995,052
Loss allowance	-	-	-	(38,987,869)	(38,987,869)
Exposure to credit risk	-	-	-	70,007,183	70,007,183

29. Risk management objectives and policies (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 2019

	Interest rate %	Less than 1 year Shs	1 - 5 years Shs	More than 5 years Shs	Total Shs
Interest bearing liabilities					
- Bank loans	18.5%	1,092,049,577	-	-	1,092,049,577
- Private placement bond	17.0%	500,000,000	-	-	500,000,000
Non-interest bearing liabilities					
- Deposit for shares	-	168,972,272	-	-	168,972,272
- Trade and other payables	-	3,469,639,115	-	-	3,469,639,115
		5,230,660,964	-	-	5,230,660,964

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%	987,751,370	-	-	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
		4,735,876,416	-	-	4,707,769,669

Company

Year ended 31 December 2019

	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		1,018,222,531	-	-	1,018,222,531
		1,518,222,531	-	-	1,518,222,531

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
		1,247,729,385	-	-	1,247,729,385

SCHEDULE OF EXPENDITURE

	Group		Company	
1. SELLING AND DISTRIBUTION EXPENSES	**2019 Shs**	**2018 Shs**	**2019 Shs**	**2018 Shs**
Marketing fees	12,382,405	8,659,790	5,277,235	2,600,673
Commissions	15,966,556	2,928,920	11,668,197	327,600
Advertising and sales promotion	1,858,235	1,492,318	1,739,884	1,523,717
Total selling and distribution expenses	30,207,196	13,081,028	18,685,316	4,451,990
2. ADMINISTRATIVE EXPENSES				
Employment:				
Salaries and wages	93,024,749	100,924,319	63,943,653	61,218,429
Medical	5,636,890	5,576,769	3,016,485	1,556,696
Staff training and welfare	6,973,196	6,374,430	3,826,612	2,139,114
Total employment costs	105,634,835	112,875,518	70,786,750	64,914,239
Other administrative expenses:				
Directors and Committee allowance	9,087,142	31,985,228	2,000,000	2,550,000
Provision for doubtful debts	-	10,693,642	10,279,029	8,199,876
Meetings expenses	4,306,187	2,928,640	4,306,187	2,928,640
Legal and professional fees	58,298,467	45,149,008	14,871,768	19,969,582
Vehicle running	2,943,015	2,579,862	2,087,971	1,211,481
Office expenses	3,413,650	1,324,339	1,194,512	777,491
Postages and telephones	2,533,410	2,906,603	1,195,861	1,835,468
Audit fees				
- current year	2,905,000	3,686,000	650,000	600,000
- under provision in prior years	18,200	311,944	-	-
Travelling and accommodation	3,784,008	2,208,829	3,762,518	659,909
Donations	158,895	842,217	108,895	126,500
Computer expenses	5,736,852	3,259,532	4,185,024	2,701,059
Printing and stationery	104,473	369,963	43,665	363,478
Bank charges and commissions	1,064,262	746,963	616,326	292,961
Secretarial fees	-	1,126,079	1,261,685	1,126,079
Total other administrative expenses	95,615,246	110,118,849	46,563,441	43,342,524
Total administrative expenses	201,250,081	222,994,367	117,350,190	108,256,763
3. OTHER OPERATING EXPENSES				
Establishment:				
Depreciation on property and equipment	6,506,392	6,874,919	3,977,132	3,962,764
Repairs and maintenance	3,205,890	3,270,039	767,037	573,503
Service charge	1,290,923	1,246,431	1,290,923	1,246,431
Insurance	2,857,517	2,511,875	1,863,580	1,525,611
Security	11,651,057	11,826,382	-	-
Amortization intangible asset	926,768	1,266,111	926,768	1,266,111
Electricity	1,996,586	2,074,385	387,747	335,311
Loss on disposal of property and equipment	-	310,000	-	310,000
Rent and rates	2,706,148	102,300	258,048	-
Licence and subscriptions	537,446	284,693	367,246	235,193
Total other operating expenses	31,678,727	29,767,135	9,838,480	9,454,924

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. **Presentation currency**

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

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

Financial risk management (continued)

Company

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses (see note below)			
		a)	b)	c)	Total
As at 31 December 2019	**Shs**	**Shs**	**Shs**	**Shs**	**Shs**
Other receivables	-	-	-	175,808	175,808
Deposits and prepayments	-	-	-	1,369,876	1,369,876
Receivables from related parties	-	-	-	842,729,101	842,729,101
Gross carrying amount	-	-	-	844,274,785	844,274,785
Loss allowance	-	-	-	(810,964,340)	(810,964,340)
Exposure to credit risk	-	-	-	33,310,445	33,310,445
As at 31 December 2018					
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

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.

(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.

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 2019, 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. 6,189,281 (2018: 5,621,349) 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.

26. Cash from operations

Reconciliation of (loss) before tax to cash from operations:	Group 2019 Shs	Group 2018 Shs	Company 2019 Shs	Company 2018
(Loss) before tax	(886,601,938)	(391,904,755)	(188,588,603)	(129,490,648)
Adjustments for:				
Depreciation on property and equipment (Note 10)	6,506,392	6,874,919	3,977,132	3,962,764
Amortization intangible assets (Note 12)	926,768	1,266,111	926,768	1,266,111
Loss on disposal	-	310,000	-	310,000
Impairment provision on inventories	390,531,081			
Interest expense (Note 7)	254,635,675	166,494,777	55,115,712	20,076,528
Changes in working capital:				
- inventories	108,527,792	(45,255,709)	(75,921,568)	129,258,728
- trade and other receivables	(338,013,052)	(18,855,255)	(1,672,957)	2,505,050
- trade and other payables	555,212,461	290,625,602	270,493,146	(15,142,844)
- deferred income	224,423,285	61,642,478	-	-
Cash from operations	316,148,465	71,198,168	64,329,630	12,745,689

27. Net debt reconciliation

Reconciliation of liabilities arising from financing activities:	Group 2019 Shs	Group 2018 Shs	Company 2019 Shs	Company 2018
At start of year:				
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
Interest on borrowings charged to profit or loss	254,635,675	160,677,492	55,115,712	20,076,528
Interest on borrowings capitalised to inventory net of interest accruals included under trade and other payables	160,830,554	1,962,715	-	-
Cash flows:				
- Operating activities (interest paid)	(254,635,675)	(11,644,764)	(55,115,712)	(14,259,243)
- Repayments of long-term borrowings	(40,378,939)	(53,007,637)	-	-
At end of year	1,598,310,031	1,481,783,846	500,000,000	500,000,000
Representing:				
Borrowings (Note 20)	921,560,824	803,049,894	-	-
Private placement (Note 21)	500,000,000	500,000,000	500,000,000	500,000,000
Deposit for shares (Note 22)	168,972,272	174,808,522	-	-
	1,590,533,096	1,477,858,416	500,000,000	500,000,000

23. **Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2018: 30%). The movement on the deferred tax account is as follows:

	Group	
	2019 Shs	**2018 Shs**
At start of year	-	46,877,574
Credit to profit or loss (Note 8)	-	(46,877,574)
At end of year	-	-

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	(49,442,920)	137,528,918
Deferred tax assets			
Property and equipment	(495,214)	(56,648)	(551,862)
Tax losses carried forward	(306,555,378)	(63,856,189)	(370,411,567)
	(307,050,592)	(63,912,838)	(370,963,430)
Net deferred tax asset	(120,078,754)	(113,355,757)	(233,434,511)
Deferred tax assets not recognised	120,078,754	113,355,757	233,434,511
	-	-	-

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. 370,411,567 (2018: Shs. 306,555,378) in respect of tax losses carried forward amounting to Shs. 1,234,705,224 (2018: Shs. 1,021,851,261) 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
- tax losses arising in 2019	212,853,964	31 December 2027

20. **Borrowings**

	Group		Company	
	2019	**2018**	**2019**	**2018**
The borrowings are made up as follows:	**Shs**	**Shs**	**Shs**	**Shs**
Current				
Bank loans	921,560,824	803,049,894	-	-

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	
Weighted average effective interest rates at the reporting date were:	**2019** **Shs**	**2018** **Shs**
Bank borrowings	18.5%	23.0%

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.

During the year, the group was in default of covenants under borrowing agreements by non repayment of the principal and interest and the details are as below:

i) I & M Bank Limited

Borrowings from this institution amounted to Shs. 167,411,219 (2018: Shs. 182,554,110) as at the reporting date. Interest payable of Shs. 15,779,640 (2018: Shs. 9,429,342) remained unpaid as at 31 December 2019. The management expects to meet all contractual obligations in the future.

ii) Eco Bank Kenya Limited

Borrowings from this institution amounted to Shs. 754,149,605 (2018: Shs. 620,495,784) as at the reporting date. Interest payable of Shs. 242,310,125 (2018: Shs. 110,397,504) remained unpaid as at 31 December 2019. The management expects to meet all contractual obligations in the future.

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	
	2019	**2018**	**2019**	**2018**
	Shs	**Shs**	**Shs**	**Shs**
Cash at bank and in hand	10,988,166	9,338,188	8,759,337	2,771,118

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	
	2019	**2018**
	Shs	**Shs**
Deferred income	1,222,850,867	998,427,582

Deferred income represents unrecognised revenue on account of ongoing construction.

19. **Trade and other payables**

	Group		Company	
	2019	**2018**	**2019**	**2018**
	Shs	**Shs**	**Shs**	**Shs**
Current				
Trade payables	467,436,476	442,517,935	70,708,046	100,971,781
Accruals	680,252,103	548,184,253	224,246,483	151,296,687
Provision for other liabilities	286,268,422	286,268,422	-	-
Deposit for service charge and shares	24,459,750	21,219,750	-	-
Other payables	87,380,845	65,247,058	40,356,409	31,948,987
Payable to related parties (Note 28(iv))	84,358,103	77,345,722	259,839,193	249,224,129
	1,630,155,699	1,440,783,140	595,150,131	533,441,584
Deposit from sale of plots and units	1,839,483,416	1,632,533,384	423,072,400	214,287,801
Total trade and other payables	3,469,639,115	3,073,316,524	1,018,222,531	747,729,385

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.

13. **Investments in subsidiaries (continued)**

Summarised financial information (continued)

	Home Afrika Communities Limited		Suburban Limited		Moru Ridge Limited	
	2019	2018	2019	2018	2019	2018
	Shs		Shs	Shs	Shs	Shs
Revenue	267,968,595	51,787,308	16,068,016	3,328,800	-	-
Expenses	(462,024,554)	(181,240,152)	(7,126,789)	(22,503,959)	(524,514,456)	(114,036,250)
(Loss) or profit for the year	(194,055,959)	(129,452,844)	8,941,227	(19,175,159)	(524,514,456)	(114,036,250)
Profit or loss attributable to the non-controlling interests	(57,222,384)	(14,533,692)	4,470,614	(9,516,275)	(209,805,782)	(45,614,500)
Net cash (out)/in flow from operating activities	7,597,126	5,876,832	70,248	(41,463)	39	(7,699)
Net cash (out)/in flow from investing activities	(8,727,631)	(1,766,176)	-	-	-	-
Net cash (out)/in flow from financing activities	(4,200,000)	(1,500,000)	-	-	-	-
Net cash (out)/ in flow	(5,330,505)	2,610,656	70,248	(41,463)	39	(7,699)

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.

13. Investments in subsidiaries

Company

Name	Country of incorporation	Holding 2019	Holding 2018	Company 2019 Shs	Company 2019 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
				76,986,247	76,986,247

The composition of the group is as follows:

Name	Country of incorporation	Proportion of ownership interest 2019	Proportion of ownership interest 2018	Proportion owned via subsidiary companies 2019	Proportion owned via subsidiary companies 2018	Principal Activities	Wholly or non-wholly owned subsidiary
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)

11. **Investment property**

Group

Year ended 31 December 2019	**Land Shs**	**WIP Shs**	**Total Shs**
At start of year	570,026,085	54,478,146	624,504,231
Additions	-	6,651,721	6,651,721
Transfer to cost of sale on disposal	(164,809,732)	(17,674,273)	(182,484,005)
Transfers to inventories	(99,282,970)	(10,647,153)	(109,930,123)
At end of year	305,933,383	32,808,441	338,741,824
Year ended 31 December 2018			
At start of year	570,026,085	53,154,250	623,180,335
Additions	-	1,323,896	1,323,896
At end of year	570,026,085	54,478,146	624,504,231

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 periodically 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:**	**Level 1 Shs**	**Level 2 Shs**	**Level 3 Shs**	**Fair value Shs**
Land held as investment property	-	-	338,741,824	338,741,824

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 48.46% as at 31 December 2019 (46.74% as at 31 December 2018). 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.

10. **Property and equipment**

Group

Year ended 31 December 2019	Building Shs	Tractor Shs	Motor vehicles Shs	Computer equipment Shs	Furniture and fittings Shs	Office equipment Shs	Total Shs
Cost							
At start of year	33,138,104	4,457,686	7,937,624	8,033,440	21,705,671	30,390,455	105,662,980
Additions	-	1,680,000	1,382,690	1,285,200	249,700	687,499	5,285,089
At end of year	33,138,104	6,137,686	9,320,314	9,318,640	21,955,371	31,077,954	110,948,069
Depreciation							
At start of year	10,096,931	4,191,987	7,083,092	5,625,511	11,156,323	14,453,764	52,607,608
Charge for the year	1,424,863	99,637	523,028	1,061,818	1,269,169	2,127,876	6,506,392
At end of year	11,521,794	4,291,624	7,606,120	6,687,329	12,425,492	16,581,640	59,114,000
Net book value	21,616,310	1,846,062	1,714,194	2,631,311	9,529,879	14,496,314	51,834,069
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

NOTES (CONTINUED)

5. Operating (loss)

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

	Group 2019 Shs	Group 2018 Shs	Company 2019 Shs	Company 2018 Shs
Depreciation on property and equipment (Note 10)	6,506,392	6,874,919	3,977,132	3,962,764
Amortisation of intangible assets (Note 12)	-	1,266,111	-	1,266,111
Auditors' remuneration				
- current year	2,905,000	3,686,000	650,000	600,000
- under provision in prior years	18,200	311,944	-	-
Directors' emoluments	9,087,142	31,985,228	2,000,000	2,550,000
Staff costs (Note 6)	105,634,835	112,875,518	70,786,750	64,914,239

6. Staff costs

	Group 2019 Shs	Group 2018 Shs	Company 2019 Shs	Company 2018 Shs
Salaries and wages	92,208,749	100,761,719	63,622,453	61,125,429
Other staff costs	12,610,086	11,951,199	6,843,097	3,695,810
Pension costs:				
- National Social Security Fund	816,000	162,600	321,200	93,000
	105,634,835	112,875,518	70,786,750	64,914,239

The average number of persons employed during the year, by category, were:

	Group 2019	Group 2018	Company 2019	Company 2018
Sales and marketing	48	20	42	14
Projects	104	14	5	4
Management and administration	27	14	18	5
Total	179	48	65	23

7. Finance costs

	Group 2019 Shs	Group 2018 Shs	Company 2019 Shs	Company 2018 Shs
Interest expense:				
- bank borrowings	159,089,353	144,614,649	-	-
- private placement bond	93,510,535	14,259,243	55,115,712	14,259,243
- deposit for shares	2,035,787	1,803,600	-	-
	254,635,675	160,677,492	55,115,712	14,259,243

q) **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.

r) **Comparatives**

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

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

h) **Financial instruments (continued)**

Financial liabilities

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The 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.**

i) **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.

j) **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.

k) **Share capital**

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

l) **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.

m) **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.

n) **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.

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

f) **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).

g) **Intangible assets**

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

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

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.

h) **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.

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

b) **Critical accounting estimates and judgement (continued)**

- **Useful lives of property, plant and equipment and intangible assets.**

  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) **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of property and provision of services in the ordinary course of business and is stated net of rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved.

The company evaluates each transaction to determine whether there are any separately identified components. Revenue is recognised as follows:

i) 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. Remaining revenue relating to infrastructure construction is recognised using the percentage of completion method.
ii) Interest income is accrued by reference to time in relation to the principal outstanding and the effective interest rate applicable.
iii) Dividend income is recognised when the shareholders right to receive payment has been established
iv) Rental income is accrued by reference to time on a straight line basis over the lease term

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

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

- IFRS 17 'Insurance Contracts' (issued in May 2017) effective for annual periods beginning on or after 1 January 2023 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Group does not issue insurance contracts.

- Amendments to IFRS 3 'Definition of a Business' (issued in October 2018) applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

- Amendments to IAS 1 and IAS 8 'Definition of Material' (issued in October 2018) applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

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

b) Critical accounting estimates and judgements

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. The assumptions and judgements set-out below do not consider the full potential impact of the recent coronavirus outbreak as it is too early at this stage to predict the full potential impact of this on the financial statements of the company.

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.

These financial statements comply with the requirements of the Kenyan Companies Act, 2015. The statement of profit or loss and statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

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.

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

Going concern

The 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 2019, the group recognised a net loss of Shs. 889 million (2018: Shs. 346 million). The statement of financial position also indicates a deficiency in shareholders' funds of Shs. 1.941 billion (2018: Shs. 1.052 billion) and net current liabilities of Shs. 2.333 billion (2018: Shs. 1.732 billion). However, included in the current liabilities are deposits for sale of plots and units as well as deferred income of Shs. 1.839 billion and Shs. 1.222 billion 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 on restructuring of the current borrowing facilities and also with prospective investors to raise additional funds.

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.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2019 Shs	2018 Shs
Operating activities			
Cash from operations	26	316,148,465	71,198,168
Interest paid	27	(254,635,675)	(11,644,764)
Tax paid		(1,473,012)	(1,497,150)
Net cash from operating activities		60,039,778	58,056,254
Investing activities			
Cash paid for purchase of property and equipment	10	(5,285,089)	(2,950,114)
Additions to investment property	11	(6,651,721)	(1,323,896)
Cash paid for purchase of intangible assets	12	(237,800)	(3,836,699)
Proceeds from disposal of property and equipment		-	540,000
Net cash (used in) investing activities		(12,174,610)	(7,570,709)
Financing activities			
Repayment:			
- borrowings		(40,378,939)	(53,007,637)
- deposits for shares		(5,836,250)	(7,780,000)
Net cash (used in) financing activities	28	(46,215,189)	(60,787,637)
Increase/(decrease) in cash and cash equivalents		1,649,978	(10,302,092)
Movements in cash and cash equivalents			
At start of year		9,338,188	19,640,279
Increase/(decrease)		1,649,978	(10,302,092)
At end of year	17	10,988,166	9,338,188

The notes on pages 26 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 16 and 17.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018	Share capital Shs	Share premium Shs	Retained earnings Shs	Total Shs	Non controlling interests Shs	Total equity Shs
At start of year	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	405,255,320	68,842,038	(1,364,757,535)	(890,660,177)	(161,710,000)	(1,052,370,177)
Year ended 31 December 2019						
At start of year	405,255,320	68,842,038	(1,364,757,535)	(890,660,177)	(161,710,000)	(1,052,370,177)
Total comprehensive (loss) for the year	-	-	(625,855,602)	(625,855,602)	(262,952,476)	(888,808,078)
At end of year	405,255,320	68,842,038	(1,990,613,137)	(1,516,515,779)	(424,662,476)	(1,941,178,255)

The notes on pages 26 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 16 and 17.

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2019 Shs	2018 Shs
Revenue from contracts with customers	3	9,670,000	15,181,000
Cost of sales		(2,463,695)	(9,058,728)
Gross profit		7,206,305	6,122,272
Other operating income	4	5,194,791	810,000
Selling and distribution		(18,685,316)	(4,451,990)
Administrative expenses		(117,350,190)	(108,256,763)
Other operating expenses		(9,838,480)	(9,454,924)
Operating (loss)		(133,472,891)	(115,231,405)
Finance costs	7	(55,115,712)	(14,259,243)
(Loss) before tax		(188,588,603)	(129,490,648)
Tax (charge)	8	-	(624,639)
(Loss) for the year		(188,588,603)	(130,115,287)
Total comprehensive (loss) for the year		(188,588,603)	(130,115,287)
(Loss) per share			
- Basic	9	(0.47)	(0.30)

The notes on pages 26 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 16 and 17.

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, etc. 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.

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%, MD 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 Policy

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: 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;

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 2018; and

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: -

Meeting of KPIs; and Longevity of stay in the company participating in attaining the results s.

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

c) Home Afrika Communities Limited

	Year Ended 31 December 2019			
#	**Name**	**Salary**	**Meeting Attendance fees**	**Total**
		Shs.	Shs.	Shs.
1	Mike Robert Karanja - Chairman	-	1,200,000	1,200,000
2	Robert Muchoki	-	900,000	900,000
3	Stephen Gichohi	-	900,000	900,000
4	Linus Gitahi	-	900,000	900,000
5	Anne Muchoki	-	900,000	900,000
6	Michael Matimu	-	900,000	900,000
	TOTAL	-	**5,700,000**	**5,700,000**

	Year Ended 31 December 2018			
#	**Name**	**Salary**	**Meeting Attendance fees**	**Total**
		Shs.	Shs.	Shs.
1	Mike Robert Karanja - Chairman	-	1,200,000	1,200,000
2	Robert Muchoki	-	900,000	900,000
3	Stephen Gichohi	-	900,000	900,000
4	Linus Gitahi	-	900,000	900,000
5	Anne Muchoki	-	900,000	900,000
6	Michael Matimu	-	900,000	900,000
	TOTAL		**5,700,000**	**5,700,000**

a) Home Afrika Limited (continued)

#	Year ended 31 December 2018 Name	Salary Shs.	Meeting attendance fees Shs.	Total Shs.
1	Linus Gitahi –Chairperson	-	500,000	500,000
2	Ketan Shah	-	300,000	300,000
3	Mbugua Gecaga	-	350,000	350,000
4	Rachel Mbai	-	500,000	500,000
5	Caroline Kigen	-	450,000	450,000
6	Peter Nduati	-	450,000	450,000
7	Dan Awendo	18,448,800	-	18,448,800
	TOTAL	**18,448,800**	**2,550,000**	**20,998,800**

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.

The new Companies Act 2015 was enacted in September 2015 and became operational in June 2016. According to the new Act, the Company is now 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.

The Company adjusted Salaries for inflation by 7% for the year 2019. This is In line with the contract for employment and the internal performance structure for the Managing director.

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

Link to Strategy

The 2019 to 2021 Strategic plan which intends to transform the group and 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.

To this end, an Integrated Performance Management Framework was rolled out with effect from January 2017.

REPORT OF THE DIRECTORS (CONTINUED)

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.

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, a partnership, was on 10 March 2020 converted to PKF Kenya LLP, a Limited Liability Partnership under the Limited Liability Partnership Act, 2011. The company's auditor, PKF Kenya LLP, has indicated willingness to continues in office in accordance with the company's Articles of Association and Section 719 of 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 the auditor's appointment and the related fees.

BY ORDER OF THE BOARD

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DIRECTOR

30 May 2020

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