UMATI CAPITAL (KENYA) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

CONTENTS

COMPANY INFORMATION

DIRECTORS	:	Mr. Ivan Kyeswa Joseph Mbowa
	:	Mr. Munyutu Waigi
	:	Umati Capital (Mauritius) Limited
REGISTERED OFFICE	:	L.R. NO. 1/870
	:	3rd Floor, Kiganjo House
	:	Rose Avenue
	:	P.O. Box 75079, 00200
	:	NAIROBI
PRINCIPAL PLACE OF	:	3rd Floor
BUSINESS	:	Haven court
	:	Waiyaki Way
	:	P.O. Box 75079, 00200
	:	NAIROBI
COMPANY SECRETARY	:	Abdullahi Gitari and Odhiambo Advocates
AND LEGAL ADVISORS	:	Fortis Suites, 4th Floor
	:	Hospital road, Opp, Nairobi Club
	:	P.O. Box 29346, 00100
	:	NAIROBI
INDEPENDENT AUDITOR	:	PKF Kenya
	:	Certified Public Accountants
	:	P.O. Box 14077, 00800
	:	NAIROBI
PRINCIPAL BANKERS	:	CFC Stanbic Bank
	:	CFC Stanbic Centre
	:	Westlands Road, Chiromo
	:	P.O. Box 72833, 00100
	:	NAIROBI

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2017, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The company is principally involved in invoice discounting and supply chain financing to SMEs in the agribusiness sector.

The company will cease operations during year 2018 and therefore the financial statements have been prepared on a basis other than that of a going concern.

BUSINESS REVIEW

During the year 2017 the total turnover of the company increased from Shs. 6,549,814 to Shs 17,802,813. The loss before tax in 2017 increased from Shs. 43,867,644 to Shs. 51,785,079.

As at 31 December 2017, the net liability position of the company was Shs. 220,169,968 compared to Shs. 142,763,438 as at 31 December 2016.

Key performance indicators	**2017**	**2016**
Revenue (Shs)	17,802,813	6,549,814
Loss for the year (Shs)	(51,785,079)	(43,867,644)
Net loss margin (%)	-291%	-670%
Net liabilities (Shs)	(220,169,968)	(142,763,438)

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 services. The company's strategic focus is to enhance revenue growth whilst maintaining profit margins, the success of which remains dependent on overall market conditions.

In addition to the business risk discussed above, the company's activities expose it to a number of financial risks which are described in detail in Note 19 to the financial statements.

DIVIDENDS

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

DIRECTORS

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

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

REPORT OF THE DIRECTORS (CONTINUED)

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to each director at the time this report was approved:
(a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and
(b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

TERMS OF APPOINTMENT OF THE AUDITOR

PKF Kenya continues in office in accordance with the company's Articles of Association and Section 719 of the 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

DIRECTOR
NAIROBI

December 6th 2018

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 company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; that disclose, with reasonable accuracy, the financial position of the company and that enable them to prepare financial statements of the company that comply with the International Financial Reporting Standards and the requirements of the Kenyan 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 the financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of 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 company as at 31 December 2017 and of the 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.

As disclosed in the basis of preparation of the financial statements in Note 1(a) of the significant policies, the company will cease operations during year 2018 and therefore the financial statements have been prepared on a basis other than that of a going concern.

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 December 6th 2018 signed on its behalf by:

DIRECTOR | DIRECTOR

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF UMATI CAPITAL (KENYA) LIMITED

Opinion

We have audited the financial statements of Umati Capital (Kenya) Limited set out on pages 8 to 26, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with theInternational Financial Reporting Standard for Small and Medium-sized Entities (IFRSs) and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. 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 financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter- preparation of financial statements on a basis other than that of going concern

We draw attention to the basis of preparation of the financial statements in Note 1(a) of the accounting policies which explains that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in this respect.

Other information

The directors are responsible for the other information. The other information comprises the directors' report and, the schedule of expenditure but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF UMATI CAPITAL (KENYA) LIMITED (CONTINUED)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF UMATI CAPITAL (KENYA) LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

In our opinion the information given in the report of the directors on pages 2 to 3 are consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Chaudhry Mohamed Asif - P/No. 2059.

Certified Public Accountants
Nairobi

_________________________2018

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STATEMENT OF PROFIT OR LOSS

	Notes	2017 Shs	2016 Shs
Interest income	2(i)	17,802,813	6,549,814
Interest expense		(8,808,550)	(6,568,749)
Net interest income/(cost)		8,994,263	(18,935)
Fee and commission income	2(ii)	279,809	422,223
Fee and commission expense		-	(1,656,820)
Net fee and commission income/(cost)		279,809	(1,234,597)
Grant income	2(iii)	19,024,381	3,061,251
Grant expense		(19,024,380)	(3,061,251)
Net grant income		-	-
Other operating income	3	5,673,129	14,930
Income before net impairment losses		14,947,202	(1,238,602)
Provision for impairment of receivables	13	(12,160,202)	(4,696,929)
Recovery of previously impaired receivables		3,003,187	18,200,000
Receivables written off		(7,832,652)	(1,723,123)
		(2,042,465)	10,541,346
Administrative expenses		(37,416,572)	(48,791,600)
Establishment expenses		(8,612,366)	(3,811,972)
Operating loss	4	(48,071,402)	(42,062,226)
Finance costs	6	(3,713,677)	(1,805,418)
Loss before tax		(51,785,079)	(43,867,644)
Tax	7	-	-
Loss for the year		(51,785,079)	(43,867,644)

The notes on pages 12 to 26 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 7

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2017 Shs	2016 Shs
FINANCED BY			
Share capital	8	100,000	100,000
Capital contribution		-	25,621,450
Retained earnings		(220,269,968)	(168,484,888)
Deficiency in shareholders' funds		(220,169,968)	(142,763,438)
Non-current liabilities			
Deposit for shares	10	193,562,279	164,541,818
		(26,607,689)	21,778,380
REPRESENTED BY			
Non-current assets			
Equipment	12	36,054	196,662
Current assets			
Trade and other receivables	13	46,710,058	32,451,215
Cash and bank balances	14	46,079,033	61,058,654
		92,789,091	93,509,869
Current liabilities			
Borrowings	11	88,558,661	49,309,508
Trade and other payables	15	10,414,687	22,618,643
Grant payable	16	20,459,486	-
		119,432,834	71,928,151
Net current (liabilities)/assets		(26,643,743)	21,581,718
		(26,607,689)	21,778,380

The financial statements on pages 8 to 26 were approved and authorised for issue by

the board of directors on 6th December 2018 and were signed on its behalf by:

________________ DIRECTOR ________________ DIRECTOR

The notes on pages 12 to 26 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 7

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs	Capital contribution Shs	Retained earnings Shs	Total Shs
Year ended 31 December 2017					
At start of year		100,000	25,621,450	(168,484,888)	(142,763,438)
Capital contribution reclassified	9	-	(25,621,450)	-	(25,621,450)
Loss for the year		-	-	(51,785,079)	(51,785,079)
At end of year		100,000	-	(220,269,968)	(220,169,968)
Year ended 31 December 2016					
At start of year		100,000	-	(124,617,244)	(124,517,244)
Capital contribution from parent		-	25,621,450	-	25,621,450
Loss for the year		-	-	(43,867,644)	(43,867,644)
At end of year		100,000	25,621,450	(168,484,888)	(142,763,438)

The notes on pages 12 to 26 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 7.

STATEMENT OF CASH FLOWS

Operating activities	**Notes**	**2017 Shs**	**2016 Shs**
Cash used in operations	17	(66,581,264)	(91,134,861)
Net cash used in operations		(66,581,264)	(91,134,861)
Investing activities			
Purchase of equipment	12	(68,090)	(27,315)
Proceeds from disposal of equipment		-	108,214
Net cash (used in)/from investing activities		(68,090)	80,899
Financing activities			
Proceeds from:			
- deposit for shares		29,020,461	36,720,092
- borrowings		94,225,856	59,537,754
- capital contribution		-	25,621,450
Repayments of:			
- borrowings		(54,976,703)	(23,566,100)
- capital contribution		(5,161,964)	-
Net cash from financing activities		63,107,650	98,313,196
(Decrease)/increase in cash and cash equivalents		(3,541,704)	7,259,234
Movement in cash and cash equivalents			
At start of year		21,680,002	16,226,186
(Decrease)/increase		(3,541,704)	7,259,234
Effect of exchange rate changes		(3,713,677)	(1,805,418)
At end of year	14	14,424,620	21,680,002

The notes on pages 12 to 26 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 7.

NOTES

1. **SIGNIFICANT ACCOUNTING POLICIES**

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

a) **Basis of preparation**

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

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

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

These financial statements comply with the requirements of the Kenyan Companies Act. The statement of profit or loss 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.

Going concern

The directors of the company resolved to cease operations of the company. Therefore the financial statements have been prepared on a basis other than that of a going concern. Assets have been written down to the lower of carrying amount and net realisable value and appropriate provisions have been made for liabilities . The parent is expected to continue to financially support the company to allow it continue to meet its obligations over this period.

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

a) **Basis of preparation (continued)**

These financial statements comply with the requirements of the Kenyan Companies Act, 2015. The statement of profit or loss and 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.

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:

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' (Annual Improvements to IFRSs 2014–2017 Cycle, issued in December 2017) - The amendment, applicable to annual periods beginning on or after 1 January 2018, clarifies that exemption from applying the equity method is available separately for each associate or joint venture at initial recognition.

- Amendments to IAS 40 'Transfers of Investment Property' (issued in December 2017) that are effective for annual periods beginning on or after 1 January 2018, clarify that transfers to or from investment property should be made when, and only when, there is evidence that a change in use of property has occurred.

  Amendment to IFRS 1 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016) that is effective for annual periods beginning on or after 1 January 2018, deletes certain short-term exemptions and removes certain reliefs for first-time adopters.

- Amendments issued in June 2017 to IFRS 2 ' Share - based Payment ' which are effective for annual periods beginning on or after 1 January 2018 clarify the effects of vesting conditions on cash settled schemes, treatment of net settled schemes and modifications for equity settled schemes.

- Amendments to IFRS 4 titled Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (issued in September 2017) that are effective for annual periods beginning on or after 1 January 2018, include a temporary exemption from IFRS 9 for insurers that meet specified criteria and an option for insurers to apply the overlay approach to designated financial.

- IFRS 9 'Financial Instruments'(Issued in July 2014) will replace IAS 39 and will be effective for annual periods beginning on or after 1 January 2018.It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition.

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

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

  In respect of impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract.

NOTES (CONTINUED)

a) **Basis of preparation (continued)**

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

In respect of hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risks.

- IFRS 15 'Revenue from Contracts with Customers' (issued in May 2014) effective for annual periods beginning on or after 1 January 2018, replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and their interpretations (SIC-31 and IFRIC 13,15 and 18).It establishes a single and comprehensive framework for revenue recognition based on a five-step model to be applied to all contracts with customers, enhanced disclosures, and new or improved guidance.
- IFRS 16 'Leases' (issued in January 2016) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.
- IFRS 17 'insurance contracts' (issued in May 2017) effective for annual periods beginning on or after 1 January 2021 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (issued in December 2016) effective for annual periods beginning on or after 1 January 2018, clarifies that the exchange rate to use in transactions that involve advance consideration paid or received in foreign currency is the one at the date of initial recognition of the non-monetary asset or liability.

The directors expect that the future adoption of IFRS 9, IFRS 15 and IFRS 16 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.

b) **Key sources of estimation uncertainty**

In the application of the accounting policies, the directors are required to make the judgments, 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 on going 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.

- **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.

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

NOTES (CONTINUED)

c) **Revenue recognition**

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 bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

i) Interest income is accrued by reference to time in relation to the principal outstanding and the effective interest rate applicable. Interest income on impaired receivables is not recognised as revenue.
ii) Fee and commission is recognised on an accrual basis with reference to the relevant agreements over agreed period of time.

d) **Equipment**

All 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 is calculated on a straight line basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rate:

	Rate %
Furniture and fittings	33.3%
Computers, faxes and copiers	33.3%

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

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 equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss.

e) **Financial instruments**

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Management determines all classification of financial assets/ liabilities at initial recognition.

Financial assets

- Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss.

  The company's financial assets fall into the following categories:

  - **Loans and receivables:** financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in profit or loss.

e) **Financial instruments (continued)**

Financial assets (continued)

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in the statement of comprehensive income under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairement losses are recognised in profit or loss. For available for sale assets cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Subsequent recoveries of amounts previously written off/impaired are credited to profit or loss and for available for sale assets in other comprehensive income in the year in which they occur.

Gains and losses on disposal of assets whose changes in fair value were initially recognised in profit or loss are determined by reference to their carrying amount and are taken into account in determining operating profit/(loss).

Cash in hand and balances with financial institutions and trade and other receivables are classified as loans and receivables and are carried at amortised cost.

Financial liabilities

The company's financial liabilities which include borrowings and trade and other payables fall into the following category:

- **Financial liabilities measured at amortised cost:** These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

  Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs under the effective interest rate method.

  Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs.

  Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

NOTES (CONTINUED)

e) **Financial instruments (continued)**

Financial liabilities (continued)

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

All financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled or expired.

- **Offsetting financial instruments**

  Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

f) **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.

g) **Share capital**

Ordinary shares are classified as equity.

h) **Taxation**

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

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

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

i) **Retirement benefit obligations**

The company 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.

j) **Comparatives**

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

NOTES (CONTINUED)

		2017 Shs	2016 Shs
2.	**Revenue**		
	i) Interest income	17,802,813	6,549,814
	ii) Fee and commission income	279,809	422,223
	ii) Grant income	19,024,381	3,061,251
3.	**Other operating income**		
	Competition winnings/awards	-	14,930
	Other income	5,673,129	-
		5,673,129	14,930
4.	**Operating loss before tax**		
	The following items have been charged in arriving at the loss before tax:		
	Depreciation on equipment (Note 12)	228,698	217,377
	Auditors' remuneration		
	- current year	250,000	250,000
	- under provision in prior year	-	52,022
	Staff cost (Note 5)	13,993,019	32,885,534
5.	**Staff costs**		
	Salaries and wages	12,348,180	29,044,414
	Other personnel expenses	682,505	2,202,282
	Medical costs	955,134	1,619,838
	Pension costs:		
	- National Social Security Fund	7,200	19,000
		13,993,019	32,885,534
	The average number of persons employed during the year were:	9	17
6.	**Finance costs**		
	Net foreign exchange loss	3,713,677	1,805,418
		3,713,677	1,805,418
7.	**Tax**		
	Current tax	-	-
	The tax on the company's loss before tax differs from the theoretical amount that would arise using the basic rate as follows:		
	Loss before tax	(51,785,079)	(43,867,644)
	Tax calculated at a tax rate of 30% (2016: 30%)	(15,535,524)	(13,160,293)
	Tax effect of:		
	- expenses not deductible for tax purposes	2,993,630	1,994,566
	- temporary differences on which no deferred tax has been recognized	12,541,894	11,165,727
	Tax	-	-

7. Tax (continued)

Deferred tax asset on carry forward tax losses of Shs. 151,560,803 (2016: Shs. 109,566,149) and other temporary differences comprising provisions for impairment of Shs. 43,603,883 have not been recognised as the financial statements are prepared on a basis other than that of a going concern. Therefore, any temporary differences, which include any carryforward tax losses are not expected to crystalise in the foreseeable future.

8. Share capital

	2017 Shs	2016 Shs
Authorised, issued and fully paid:		
1,000 (2016: 1,000) ordinary shares of Shs. 100 each	100,000	100,000

9. Capital contribution

At start of year	25,621,450	-
Capital contribution form Umati Mauritius	-	25,621,450
Reclassification to grant payable (Note 16)	(25,621,450)	-
At end of year	-	25,621,450

On 20 December 2016, the company received Shs. 25,621,450 from its parent as a grant that is non-refundable other that at the option of the company. During the year, the company made a decision to voluntary repay the grant. This grant has been reclassifies as a grant payable.

10. Deposit for shares

	2017 Shs	2016 Shs
Deposit received from parent (Note 16(ii))	25,420,920	25,420,920
Deposit received from key management and staff (Note 16(iii))	6,976,138	5,780,952
Deposit received from other investors	161,165,221	133,339,946
	193,562,279	164,541,818

The deposits for shares above have been received pending allotment of shares. They are interest free.

11. Borrowings

The borrowings are made up as follows:	2017 Shs	2016 Shs
Current		
Loans from investors	88,558,661	49,309,508

The borrowings are secured by the following:

- Investor lending loans are secured by the personal guarantee of the directors.

The exposure of the company's borrowings to interest rate changes and the contractual repricing dates at the reporting date are as follows:

6 - 12 months	88,558,661	49,309,508

NOTES (CONTINUED)

11. **Borrowings (continued)**

	2017 Shs	2016 Shs
Reconciliation of liabilities arising from financing activities:		
At start of year	49,309,508	13,337,854
Interest charged to profit or loss	8,808,550	6,568,749
Borrowing costs capitalised during the year		
Foreign exchange (gain)/loss		
Cash flows:		
- Operating activities (interest paid)	(8,808,550)	(6,568,749)
- Proceeds from long-term borrowings	94,225,856	59,537,754
- Repayments of long-term borrowings	(54,976,703)	(23,566,100)
At end of year	88,558,661	49,309,508

Weighted average effective interest rates at the year end were:

	2017	2016
Investor lending loans	11.2%	11%

The fair values of current borrowings equal to their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using the weighted average rates mentioned above.

The carrying amounts of the company's borrowings are denominated in the following currencies:

	2017 Shs	2016 Shs
Kenya Shilling	45,921,355	39,550,321
US Dollar	3,453,504	9,759,187
Euro	39,183,802	-
	88,558,661	49,309,508

12. **Equipment**

Year ended 31 December 2017	Computers, faxes and copiers Shs	Furniture and Fittings Shs	Total Shs
Cost			
At start of year	583,106	51,925	635,031
Additions	68,090	-	68,090
At end of year	651,196	51,925	703,121
Depreciation			
At start of year	398,294	40,075	438,369
Charge for the year	216,848	11,850	228,698
At end of year	615,142	51,925	667,067
Net book value	36,054	-	36,054

NOTES (CONTINUED)

12. **Equipment (continued)**

Year ended 31 December 2016	**Computers, faxes and copiers**	**Furniture and Fittings**	**Total**
Cost	**Shs**	**Shs**	**Shs**
At start of year			
Additions	572,826	253,890	826,716
Disposals	10,280	17,035	27,315
	-	(219,000)	(219,000)
At end of year			
	583,106	51,925	635,031
Depreciation			
At start of year			
Charge for the year	247,148	-	331,778
Disposals	151,146	66,231	217,377
	-	(110,786)	(110,786)
At end of year			
	398,294	40,075	438,369
Net book value			
	184,812	11,850	196,662

13. **Trade and other receivables**

	2017	**2016**
	Shs	**Shs**
Trade receivables	94,552,576	75,661,971
Less: impairment provisions	(49,032,513)	(43,603,883)
Net trade receivables	45,520,063	32,058,088
Prepayments	1,189,995	393,127
	46,710,058	32,451,215

Movement in impairment provisions

		2017	2016
At start of year		43,603,883	58,906,954
Additions	Provision for impairment	12,160,202	4,696,929
	Write offs	(3,728,385)	-
Recoveries		(3,003,187)	(20,000,000)
At end of year		49,032,513	43,603,883

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

The company's credit risk arises primarily from trade receivables. The directors are of the opinion that the company's exposure is limited because the debt is widely held.

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

Trade receivables that are aged past 90 days are considered past due.

As of 31 December 2017, trade receivables amounting to Shs. 13,350,545 (2016: 23,929,987) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

NOTES (CONTINUED)

13. **Trade and other receivables (continued)**

	2017 Shs	2016 Shs
3 to 12 months	13,350,545	23,929,987

Individually impaired receivables mainly relate to customers, who are in unexpectedly difficult economic situations. The ageing analysis of these impaired trade receivables is as follows:

	2017 Shs	2016 Shs
3 to 12 months	6,462,165	6,462,165
Over 12 months	42,570,347	37,141,718
	49,032,513	43,603,883

The other classes within trade and other receivables do not contain impaired assets.

14. **Cash and cash equivalents**

	2017 Shs	2016 Shs
Cash at bank and in hand	46,079,033	61,058,654

For the purposes of the statement of cash flows, the year cash comprises the following.

	2017 Shs	2016 Shs
Cash at bank and in hand	46,079,033	61,058,654
Less: restricted cash	(31,654,413)	(39,378,652)
	14,424,620	21,680,002

The restricted cash balance relates to restricted grant income received but not spent as at the date of these financial statements.

The carrying amounts of the company's cash at bank and in hand are all denominated in the following currencies:

	2017 Shs	2016 Shs
Kenya Shilling	9,548,123	2,482,301
GBP	455,049	-
Euro	19,962,026	-
US Dollar	16,113,835	58,576,353
	46,079,033	61,058,654

15. **Trade and other payables**

	2017	2016
Trade payables	4,512,545	7,945,481
Accruals	1,815,052	250,000
Other payables	741,391	665,960
Deferred grant income	3,345,699	13,757,202
	10,414,687	22,618,643

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

Deferred grant income relates to grants received but not spent at the reporting date from donors to enable the organization provide affordable credit to farmers.

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

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

The maturity analysis of trade and other payables are within 3 months.

16. **Grant payable**	**2017 Shs**	**2016 Shs**
Reclassification from capital contribution (Note 9)	25,621,450	-
Payments during the year	(5,161,964)	-
At end of year	20,459,486	-

17. **Cash (used in) operations**	**2017 Shs**	**2016 Shs**
Reconciliation of loss before tax to cash (used in) operations:		
(Loss) before tax	(51,785,079)	(43,867,644)
Adjustments for:		
Depreciation on equipment (Note 11)	228,698	217,377
Net foreign exchange (gain)/loss	3,713,677	1,805,418
Changes in working capital		
- trade and other receivables	(14,258,843)	(23,752,973)
- trade and other payables	(12,203,955)	13,841,613
- movement in restricted cash	7,724,239	(39,378,652)
Cash (used in) operations	(66,581,264)	(91,134,861)

18. **Related party transactions and balances**

The company is controlled by Umati Capital Limited incorporated in Mauritius, which owns 95% of the company's shares.

The following transactions were carried out with related parties:

i) **Key management personnel compensation**	**2017 Shs**	**2016 Shs**
Salaries	3,743,678	7,538,306

ii) **Deposits for shares from parent**

At start and end of year (Note 10)	25,420,920	25,420,920

18. **Related party transactions and balances (continued)**

iii) **Deposits for shares from key management and staff**	**2017 Shs**	**2016 Shs**
At start of year	5,780,952	-
Advances	1,195,186	5,780,952
At end of year (Note 9)	6,976,138	5,780,952
iii) **Grant payble to parents company**	20,459,486	-

19. **Risk management objectives and policies**

Financial risk management

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

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by the management under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and investment of excess liquidity.

(a) **Market risk**

- *Foreign exchange risk*

The company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar and Euro. The risk arises from future transactions, assets and liabilities in the statement of financial position.

The table below summarises the effect on post-tax (loss) had interest rates been 1 percentage point higher, with all other variables held constant. If the interest rates were lower by 1 percentage point, the effect would have been the opposite.

Year 2017	**US $ Shs**	**Euro Shs**	**GBP Shs**	**Total Shs**
Effect of loss - increase/(decrease) (Shs)	126,603	(192,218)	4,550	(61,064)
Year 2016				
Effect of loss - increase/(decrease) (Shs)	488,172	-	-	488,172

- *Interest rate risk*

The company's exposure to interest rate risk arises from borrowings.

NOTES (CONTINUED)

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

(a) **Market risk (continued)**

The table below summarises the effect on post-tax (loss) had interest rates been 1 percentage point higher, with all other variables held constant. If the interest rates were lower by 1 percentage point, the effect would have been the opposite.

	2017 Shs	2016 Shs
Effect on (loss) - (increase)	(61,660)	(45,981)

(b) **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, 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 10 and 14 disclose the maturity analysis of borrowings and trade and other payables respectively.

The table below summarises the maturity analysis for financial liabilities to their remaining contractual maturities. The amounts disclosed are the contractual undiscounted cash flows.

(b) **Liquidity risk (continued)**

Year ended 31 December 2017	**Interest rate %age**	**Less than 3 months Shs**	**Between 4 - 12 months Shs**	**Over 1 year Shs**	**Total Shs**
Interest bearing liabilities					
Borrowings	15%	-	100,956,874	-	100,956,874
Non-interest bearing liabilities					
Trade and other payables		7,068,988	-	-	7,068,988
Deferred income		-	-	3,345,699	3,345,699
Deposit for shares		-	-	193,562,279	-
		7,068,988	100,956,874	308,279,539	111,371,561
Year ended 31 December 2016					
Interest bearing liabilities					
Borrowings	15%	-	56,212,839	-	56,212,839
Non-interest bearing liabilities					
Trade and other payables		8,861,441	-	-	8,861,441
Deferred income		-	-	13,757,202	
Deposit for shares		-	-	164,541,818	-
		8,861,441	56,212,839	178,299,020	65,074,280

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

(c) **Credit risk**

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.

None of the financial assets that are fully performing has been renegotiated in the last year.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

20. **Capital management**

Internally imposed capital requirements

The company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing services commensurately with the level of risk;
- to comply with the capital requirements set out by the company'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 company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying 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.

Due to accumulated losses, the company is entirely funded by its shareholders.

21. **Country of incorporation**

Umati Capital (Kenya) Limited is incorporated in Kenya under the Companies Act as a private limited liability company and is domiciled in Kenya.

22. **Presentation currency**

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

SCHEDULE OF EXPENDITURE

	2017 Shs	2016 Shs
1. ADMINISTRATIVE EXPENSES		
Employment:		
Salaries and wages	12,348,180	30,202,094
Other personnel expenses	682,505	218,654
National Social Security Fund	7,200	14,800
Medical costs	955,134	1,143,968
	13,993,019	31,579,516
Other administrative expenses:		
Consulting fees	8,620,336	2,304,213
Marketing and public relations	495,734	1,314,921
Telephone, postage and courier	477,681	271,290
Bank charges and commissions	1,573,755	427,780
Subscriptions	58,619	162,435
Audit fees		
- current year	250,000	250,000
- under provision in prior year	-	52,022
Entertainment	320,012	79,804
Transport	1,074,325	611,478
Printing and stationery	23,057	261,855
Website	2,095,077	1,043,926
Office expenses	266,176	1,128,400
Legal and professional fees	6,817,889	6,429,490
Equipment rental	448,782	313,507
Other provisions	51,904	2,560,963
Fines and penalties	850,203	-
Total other administrative expenses	23,423,552	17,212,084
Total administrative expenses	37,416,572	48,791,600
2. ESTABLISHMENT EXPENSES		
Insurance	4,624,487	434,518
Licences	132,345	362,658
Rent and rates	3,626,836	2,797,419
Depreciation on equipment	228,698	217,377
Total establishment expenses	8,612,366	3,811,972
3. FINANCE COSTS		
Net foreign exchange (gain)/loss	3,713,677	1,805,418
	3,713,677	1,805,418
4. GRANT EXPENSES		
Inception and project planning phase costs	-	1,533,598
Design and implementation of capacity building	19,024,379	1,527,653
	19,024,379	3,061,251