

Company Registration No. 10891868 (England and Wales)

**M-KOPA HOLDINGS LIMITED**

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

SATURDAY



\*A9AZ7RJT\*

A13

08/08/2020

#256

COMPANIES HOUSE

**CONTENTS**

	<b>PAGE</b>
Group information	1
Strategic report	2 - 4
Report of the directors	5
Directors' responsibilities statement	6
Report of the independent auditor	7 - 9
Financial statements:	
Consolidated statement of profit or loss and other comprehensive income	10
Company statement of profit or loss	11
Consolidated statement of financial position	12
Company statement of financial position	13
Consolidated statement of changes in equity	14
Company statement of changes in equity	15
Consolidated statement of cash flows	16
Company statement of cash flows	17
Notes to the financial statements	18 - 59

**GROUP INFORMATION**

**DIRECTORS** : Jesse Moore - Executive Director  
: Nick Hughes - Executive Director  
: Arun Gore - Non- Executive Director  
: Oliver Karius - Non- Executive Director (Resigned on 1 December 2019)  
: Colin Le Duc - Non- Executive Director (Resigned on 9 October 2019)  
: Susan Githuku - Non- Executive Director  
: Elizabeth Littlefield - Non- Executive Director  
: Dave Easton - Non-Executive Director (Resigned on 26 July 2019 and Re-appointed on 15 October 2019)  
: Ian McCaig - Non-Executive Director (Appointed on 16 January 2019)  
: Maria Largey - Non-Executive Director (Appointed 15 October 2019)  
: Shakir Merali - Non-Executive Director (Appointed 1 December 2019)

**REGISTERED OFFICE** : 27 Old Gloucester Street  
: London  
: WC1N 3AX

**INDEPENDENT AUDITOR** : KLSA LLP  
: Kalamu House  
: 11 Coldbath Square  
: London, EC1R 5HL

**PRINCIPAL BANKER** : Lloyds Bank Plc  
: 25 Gresham Street  
: London, EC2V 7HN

**SUBSIDIARIES** : M-Kopa Kenya Limited  
: M-Kopa Uganda Limited  
: M-Kopa Tanzania Limited  
: M-Kopa UK Limited  
: M-Kopa Hong Kong Limited  
: M-Kopa Funding Limited  
: M-Kopa, LLC  
: M-Kopa IPR, LLC  
: M-Kopa Services, LLC  
: M-Kopa Solar Nigeria Limited  
: M-Kopa UK 2 Limited

## STRATEGIC REPORT

The directors submit their consolidated financial statements and strategic report for the year ended 31 December 2019, which disclose the state of affairs of the group.

### REVIEW OF THE BUSINESS

The key financial performance indicators during the year were as follows:

	2019 \$m	2018 \$m	Change %
Revenue	69.2	58.3	19%
Loss before tax	(10.7)	(15.7)	32%
Accounting receivables	58.6	39.8	47%
Cash	20.1	13.2	52%

Revenue increased by 19% during the year due to increased volumes and this together with a focus on margin improvements saw the loss before tax reduce from \$15.7m to \$10.7m. The net asset position of the group has decreased from \$27.2m to \$19.7m in the year while the company's net asset position was \$93.9m in 2018 compared to \$93.7m in 2019.

The growth in accounting receivables reflects the expansion of the group's customer loan book and illustrates the continued demand for the group's products. The group has also been able to increase its closing cash balance whilst continuing to fund the group's expanding customer loan book.

### FUTURE DEVELOPMENTS

The directors aim to maintain the management policies which have resulted in the group's growth in recent years and are confident that the growth will continue as the group reaches more off-grid customers.

### RESEARCH AND DEVELOPMENT

Given the technological nature of the group's business, research and development activities are undertaken to ensure the group's product range continues to grow. This means that the group is able to assist more customers with innovative solutions and therefore "Upgrade more lives".

### PRINCIPAL RISKS AND UNCERTAINTIES

The company's activities expose it to a number of financial risks which are described in detail in Note 23 to the financial statements.

### FINANCIAL INSTRUMENTS

The group has established a risk and financial management framework whose primary objectives are to protect the group from events that hinder the achievement of the group's performance objectives.

The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk at a business unit level.

### KEY PERFORMANCE INDICATORS

The key performance indicators of the group on financial performance include Gross Margin, EBITDA, and EBT. The non financial performance metrics include number of customers who own M-KOPA's products and number of customers retained and upgraded to other products.

The key non financial performance indicators are number of households whose lives have been upgraded by owning M-KOPA's renewable energy products.

During the year, the group achieved EBITDA margin of -1% (2018: -12%).

**KEY PERFORMANCE INDICATORS (CONTINUED)**

Revenue increased from \$58.2m to \$69.1m during the year due to increased volumes which resulted in an increase in the gross profit from \$19.8m to \$26.2m and together with a focus on margin improvements saw the loss before tax reduce from \$15.7m to \$10.7m.

**BREXIT**

The UK's decision to leave the EU has minimum impact on the operations of group companies. Most of the core group operations are undertaken outside the EU. Nonetheless, the group continues to monitor the situation as the UK transitions out of the EU in 2020.

**SECTION 172 OF THE COMPANIES ACT 2006**

It is a requirement that the directors of M-KOPA – and those of all UK companies – must act in accordance with the Companies Act which includes a duty under Section 172 of that Act to promote the success of the Group.

The Board of Directors is actively involved in the formulation of the Group's strategy, including consideration of how decisions made will impact the long-term.

We recognise the critically important role that our employees play in the success of the business and ensure that the health, safety and well-being of our employees is a top priority.

We ensure that dealings with customers, suppliers and other stakeholders are fair and transparent as we recognise that they are a key part of the success of the business. We demonstrate the positive impact on the communities and environments in which we operate through our primary activity of providing solar home energy solutions.

We behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance.

The directors also understand that they must act in a way that is most likely to promote the success of the company for the benefit of its members.

**GOING CONCERN**

The group's business activities, together with the factors likely to affect its future development, performance and position have been reviewed by the directors. Specifically, the directors have prepared a four-year forecast which considers the group's ability to continue as a going concern.

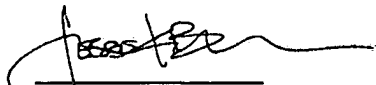
The group meets its day-to-day working capital requirements through loan facilities that are due for renewal on various dates in the future.

Based on the cash flow projections and the additional capital raise as well as the renewal of its loan facilities, the directors consider it appropriate to prepare the group's financial statements on a going concern basis.

**COVID-19**

The group is undertaking various measures to minimise the impact of COVID-19. The group is working very closely with suppliers to ensure continuous supply of products, as well as with lenders to ensure liquidity lines are maintained and flexibility is applied on various covenants that may impact the business at this time. The group has successfully adopted social distancing measures for employees and implemented support for its agents to ensure their continued health, safety and wellbeing. Further, the group is reviewing its credit policy to ensure further support to its customers in a period where they also face liquidity issues. The group has factored the impact of COVID-19 into its business plan and has undertaken a number of scenarios to ensure it will be able to continue as a going concern.

**BY ORDER OF THE BOARD**

  
**JESSE MOORE**  
**DIRECTOR**

30 April 2020

## REPORT OF THE DIRECTORS

### PRINCIPAL ACTIVITIES

The principal activities of the group are that of retailing and provision of services in relation to financed solar home energy solutions as well other connected assets or devices.

### DIRECTORS

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

RESULTS	2019 USD	2018 USD
Loss before tax	(10,661,522)	(15,716,075)
Tax	437,081	976,280
Loss for the year	<u>(10,224,441)</u>	<u>(14,739,795)</u>

### DIVIDEND

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

### DISABLED PERSONS

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the company continues and that the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### EMPLOYEE INVOLVEMENT

The directors are committed to maintaining a working environment where staff are individually valued and recognised.

The directors appreciate their responsibility to encourage and assist in the employment, training, promotion and personal career development of all employees without prejudice and the company places value on the involvement of its employees and keeps them informed, not only on matters affecting them as employees, but also on various factors affecting the performance of the company. This is achieved through both formal and informal meetings.

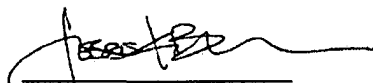
### STATEMENT OF DISCLOSURE TO AUDITORS

So far as each person who was a director at the date of approving this report is aware, there is no relevant information of which the company and group's independent auditor are unaware. Additionally, the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the group's and company's auditors are aware of that information.

### APPOINTMENT OF AUDITORS

The auditor, KLSA LLP, is deemed to be reappointed under Section 487(2) of the Companies Act 2006.

### BY ORDER OF THE BOARD

  
JESSE MOORE  
DIRECTOR

30 April 2020

**DIRECTORS' RESPONSIBILITIES STATEMENT**

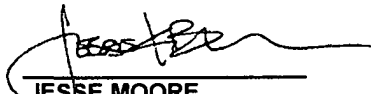
The directors are responsible for preparing financial statements for the group and company in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards endorsed by EU (EU endorsed IFRS and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether International Financial Reporting Standards have been followed subject to any material departures disclosed and explained in the financial statements, and;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the consolidated and company financial statements comply with requirements of the International Financial Reporting Standards. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

  
**JESSE MOORE**  
**DIRECTOR**

30 April 2020



**REPORT OF THE INDEPENDENT AUDITOR  
TO THE MEMBERS OF M-KOPA HOLDINGS LIMITED**

**Opinion**

We have audited the financial statements of M-Kopa Holdings Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the consolidated and company statements of profit or loss and other comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards endorsed by EU.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2019 and of the group's and the parent company's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards endorsed by EU; and
- have been prepared in accordance with the requirements of the UK Companies Act, 2006.

**Basis for Opinion**

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

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the International Standards on Auditing (UK) require us to report to you where:

- The directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is not appropriate; or
- The directors have not disclosed in the consolidated financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the consolidated financial statements are authorised for issue.

**Other Information**

The other information comprises the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the consolidated financial statements or a material misstatement of the other information. 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.

**REPORT OF THE INDEPENDENT AUDITOR  
TO THE MEMBERS OF M-KOPA HOLDINGS LIMITED (CONTINUED)**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of our audit :

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report. We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 International Standards on Auditing (UK) 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 consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**REPORT OF THE INDEPENDENT AUDITOR  
TO THE MEMBERS OF M-KOPA HOLDINGS LIMITED (CONTINUED)**

**Use of our report**

This report is made solely to the group's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the group and the group's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Shilpa Chheda (Senior Statutory Auditor)**  
**for and on behalf of KLSA LLP**  
**Chartered Accountants**  
**Statutory Auditors**  
**Kalamu House, 11 Coldbath Square**  
**London**  
**EC1R 5HL**

30 April 2020

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME**

	Notes	2019 USD	2018 USD *Restated
Revenue	1	69,179,958	58,344,600
Cost of sales		<u>(42,950,713)</u>	<u>(38,532,750)</u>
<b>Gross profit</b>		26,229,245	19,811,850
Other operating income	2	2,592,500	1,926,484
Selling and distribution expenses		(7,613,083)	(9,496,695)
Administrative expenses		(20,665,698)	(18,357,841)
Other operating expenses		<u>(1,704,213)</u>	<u>(1,565,333)</u>
<b>Operating loss</b>	3	(1,161,249)	(7,681,535)
Finance costs	5	<u>(9,500,273)</u>	<u>(8,034,540)</u>
<b>Loss before tax</b>		(10,661,522)	(15,716,075)
Tax	6	<u>437,081</u>	<u>976,280</u>
<b>Loss for the year</b>		<u>(10,224,441)</u>	<u>(14,739,795)</u>
<b>Other comprehensive income:</b>			
- Exchange differences on translation of foreign operations		<u>(84,067)</u>	<u>(657,251)</u>
<b>Total comprehensive loss for the year</b>		<u>(10,308,508)</u>	<u>(15,397,046)</u>

The notes on pages 18 to 59 form an integral part of these financial statements.

Report of the independent auditor - pages 7 to 9.

\* See note 20 for details about restatements for changes in accounting policies.

*M-Kopa Holdings Limited*  
*Annual report and consolidated financial statements*  
*For the year ended 31 December 2019*

---

**COMPANY STATEMENT OF PROFIT OR LOSS**

	Notes	2019 USD	2018 USD
Revenue	1	-	-
Other operating income	2	5,310	-
Administrative expenses		(479,473)	(108,063)
Other operating expenses		<u>(166,253)</u>	<u>-</u>
<b>Operating loss</b>	3	(640,416)	(108,063)
Finance costs	5	<u>(2,495,177)</u>	<u>(1,401,719)</u>
<b>Loss before tax</b>		(3,135,593)	(1,509,782)
Tax	6	<u>-</u>	<u>-</u>
<b>Loss for the year</b>		<u><u>(3,135,593)</u></u>	<u><u>(1,509,782)</u></u>

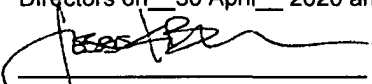
The notes on pages 18 to 59 form an integral part of these financial statements.

Report of the independent auditor - pages 7 to 9.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		As at 31 December		As at 1 January
	Notes	2019	2018	2018
		USD	USD	USD
			*Restated	*Restated
<b>CAPITAL EMPLOYED</b>				
Members equity, common	7	4,507,088	4,505,488	4,505,488
Members equity, preferred	7	93,587,495	90,746,728	67,482,921
Share based payment reserve		205,840	205,840	205,840
Translation reserve		(741,318)	(657,251)	(635,973)
Accumulated losses		(77,846,265)	(67,619,645)	(52,879,850)
<b>Shareholders' funds</b>		<u>19,712,840</u>	<u>27,181,160</u>	<u>18,678,426</u>
<b>Non-current liabilities</b>				
Borrowings and grants	8	68,730,516	43,730,053	31,240,878
Lease liabilities	9	554,138	544,277	521,527
		<u>69,284,654</u>	<u>44,274,330</u>	<u>31,762,405</u>
		<u>88,997,494</u>	<u>71,455,490</u>	<u>50,440,831</u>
<b>REPRESENTED BY</b>				
<b>Non-current assets</b>				
Deferred tax	10	14,139,814	13,845,819	12,368,710
Property, plant and equipment	11	999,970	1,134,382	1,552,915
Intangible assets	12	2,523,389	1,659,195	1,383,702
Right-of-use assets	13	828,213	825,219	1,039,469
		<u>18,491,386</u>	<u>17,464,615</u>	<u>16,344,796</u>
<b>Current assets</b>				
Inventories	15	12,049,708	10,061,507	7,427,821
Trade and other receivables	16	65,012,400	47,984,194	33,029,163
Cash and cash equivalents	17	20,121,366	13,218,433	18,102,865
Tax recoverable		292,093	156,113	-
		<u>97,475,567</u>	<u>71,420,247</u>	<u>58,559,849</u>
<b>Current liabilities</b>				
Borrowings and grants	8	14,128,817	8,489,988	15,223,750
Lease liabilities	9	428,834	387,801	599,060
Trade and other payables	18	12,411,808	8,551,583	8,641,005
		<u>26,969,459</u>	<u>17,429,372</u>	<u>24,463,815</u>
<b>Net current assets</b>		<u>70,506,108</u>	<u>53,990,875</u>	<u>34,096,034</u>
		<u>88,997,494</u>	<u>71,455,490</u>	<u>50,440,831</u>

The financial statements on pages 10 to 59 were approved and authorised for issue by the Board of Directors on 30 April 2020 and were signed on its behalf by:

  
JESSE MOORE  
DIRECTOR

The notes on pages 18 to 59 form an integral part of these financial statements.

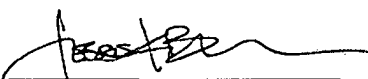
Report of the independent auditor - pages 7 to 9.

\* See note 20 for details about restatements for changes in accounting policies.

**COMPANY STATEMENT OF FINANCIAL POSITION**

		As at 31 December		As at 1 January
		2019	2018	2018
	Notes	USD	USD	USD
<b>CAPITAL EMPLOYED</b>				
Members equity, common		4,507,088	4,505,488	-
Members equity, preferred		93,587,495	90,746,728	-
Share based payments reserve		205,839	205,839	-
Accumulated losses		(4,645,375)	(1,509,782)	-
<b>Shareholders' funds</b>		<u>93,655,047</u>	<u>93,948,273</u>	<u>-</u>
<b>Non-current liabilities</b>				
Borrowings	8	<u>29,870,950</u>	<u>18,709,988</u>	<u>-</u>
		<u>123,525,997</u>	<u>112,658,261</u>	<u>-</u>
<b>REPRESENTED BY</b>				
<b>Non-current assets</b>				
Investment in subsidiaries	14	116,613,084	101,652,613	-
Trade and other receivables	16	<u>9,187,432</u>	<u>-</u>	<u>-</u>
		<u>125,800,516</u>	<u>101,652,613</u>	<u>-</u>
<b>Current assets</b>				
Trade and other receivables	16	2,331,076	16,369,692	-
Cash and cash equivalents	17	<u>9,311,302</u>	<u>3,547,793</u>	<u>-</u>
		<u>11,642,378</u>	<u>19,917,485</u>	<u>-</u>
<b>Current liabilities</b>				
Borrowings	8	12,972,000	8,489,988	-
Trade and other payables	18	<u>944,897</u>	<u>421,849</u>	<u>-</u>
		<u>13,916,897</u>	<u>8,911,837</u>	<u>-</u>
<b>Net current liabilities/assets</b>		<u>(2,274,519)</u>	<u>11,005,648</u>	<u>-</u>
		<u>123,525,997</u>	<u>112,658,261</u>	<u>-</u>

The financial statements on pages 10 to 59 were approved and authorised for issue by the Board of Directors on \_\_30 April\_\_ 2020 and were signed on its behalf by:

  
**JESSE MOORE**  
**DIRECTOR**

The notes on pages 18 to 59 form an integral part of these financial statements.

Report of the independent auditor - pages 7 to 9.

Company Registration No. 10891868 (England and Wales)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Notes	Members equity, common USD	Members equity, preferred USD	Shared based payments reserve USD	Translation reserve USD	Accumulated losses USD	Total USD
<b>Year ended 31 December 2018</b>							
At start of year - as previously stated		-	-	-	-	(49,381,981)	(49,381,981)
<b>Transition adjustment relating to prior years:</b>							
- Changes on transition to IFRS*	20	-	-	-	-	(3,497,869)	(3,497,869)
At start of year - restated		-	-	-	-	(52,879,850)	(52,879,850)
Share based payments reserve movement		-	-	205,840	-	-	205,840
Issue of share capital		4,505,488	90,746,728	-	-	-	95,252,216
Total comprehensive loss for the year (restated)		-	-	-	(657,251)	(14,739,795)	(15,397,046)
At end of year - as restated		<u>4,505,488</u>	<u>90,746,728</u>	<u>205,840</u>	<u>(657,251)</u>	<u>(67,619,645)</u>	<u>27,181,160</u>
<b>Year ended 31 December 2019</b>							
At start of year - as previously stated		4,505,488	90,746,728	205,840	(593,958)	(62,577,191)	32,286,907
<b>Transition adjustment relating to prior years:</b>							
- Changes on transition to IFRS*	20	-	-	-	(63,293)	(5,044,633)	(5,107,926)
At start of year - restated		4,505,488	90,746,728	205,840	(657,251)	(67,621,824)	27,178,981
Issue of share capital	7 (a)	1,600	2,840,767	-	-	-	2,842,367
Total comprehensive loss for the year		-	-	-	(84,067)	(10,224,441)	(10,308,508)
At end of year		<u>4,507,088</u>	<u>93,587,495</u>	<u>205,840</u>	<u>(741,318)</u>	<u>(77,846,265)</u>	<u>19,712,840</u>

\* Relates to transition adjustments in accordance with IFRS 9, IFRS 15 and IFRS 16, as further described in Note 20.

The notes on pages 18 to 59 form an integral part of these financial statements.

Report of the independent auditor - pages 7 to 9.



**COMPANY STATEMENT OF CHANGES IN EQUITY**

		Members equity, common USD	Members equity, preferred USD	Shared based payments reserve USD	Accumulated losses USD	Total USD
	<b>Notes</b>					
<b>Year ended 31 December 2018</b>						
At start of year		-	-	-	-	-
Issue of share capital		4,505,488	90,746,728	-	-	95,252,216
Issue of share capital		-	-	205,839	-	205,839
Loss for the year		-	-	-	(1,509,782)	(1,509,782)
At end of year		<u>4,505,488</u>	<u>90,746,728</u>	<u>205,839</u>	<u>(1,509,782)</u>	<u>93,948,273</u>
<b>Year ended 31 December 2019</b>						
At start of the year		4,505,488	90,746,728	205,839	(1,509,782)	93,948,273
Issue of share capital	7	1,600	2,840,767	-	-	2,842,367
Loss for the year		-	-	-	(3,135,593)	(3,135,593)
At end of year		<u>4,507,088</u>	<u>93,587,495</u>	<u>205,839</u>	<u>(4,645,375)</u>	<u>93,655,047</u>

The notes on pages 18 to 59 form an integral part of these financial statements.

Report of the independent auditor - pages 7 to 9.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Notes	2019 USD	2018 USD *Restated
<b>Operating activities</b>			
Cash (used in) operations	19	(16,109,211)	(24,467,383)
Interest paid		<u>(9,220,727)</u>	<u>(7,782,607)</u>
Net cash (used in) operating activities		<u>(25,329,938)</u>	<u>(32,249,990)</u>
<b>Investing activities</b>			
Additions to property, plant and equipment	11	(319,220)	(164,977)
Cash paid for leases		-	(156,713)
Additions to intangible assets	12	<u>(1,341,267)</u>	<u>(683,253)</u>
Net cash (used in) investing activities		<u>(1,660,487)</u>	<u>(1,004,943)</u>
<b>Financing activities</b>			
Proceeds from issue of share capital	7	2,840,767	23,263,807
Net proceeds from borrowings and grants	8	30,639,292	5,403,152
Net movements in lease liabilities			
- Repayments of lease liabilities		<u>(466,838)</u>	<u>-</u>
Net cash from financing activities		<u>33,013,221</u>	<u>28,666,959</u>
<b>Increase/(decrease) in cash and cash equivalents</b>		<u>6,022,796</u>	<u>(4,587,973)</u>
<b>Movement in cash and cash equivalents</b>			
At start of year		13,218,433	18,157,538
Effect of translation reserve movements		1,015,135	(438,254)
Effect of exchange rate changes		(134,998)	87,122
Increase/(decrease) in cash and cash equivalents		<u>6,022,796</u>	<u>(4,587,973)</u>
At end of year	17	<u>20,121,366</u>	<u>13,218,433</u>
Split as:			
Cash at bank and in hand		14,207,078	8,305,536
Restricted cash balances		<u>5,914,288</u>	<u>4,912,897</u>
		<u>20,121,366</u>	<u>13,218,433</u>

The notes on pages 18 to 59 form an integral part of these financial statements.

Report of the independent auditor - pages 7 to 9.

\* See note 20 for details about restatements for changes in accounting policies.

*M-Kopa Holdings Limited*  
*Annual report and consolidated financial statements*  
*For the year ended 31 December 2019*

**COMPANY STATEMENT OF CASH FLOWS**

	Notes	2019 USD	2018 USD
<b>Operating activities</b>			
Cash from/(used in) operations	19	4,733,816	(16,055,906)
Interest paid		<u>(2,490,948)</u>	<u>(1,399,294)</u>
Net cash from/(used in) operating activities		<u>2,242,868</u>	<u>(17,455,200)</u>
<b>Investing activities</b>			
Share based payments reserve		-	205,839
Investment in subsidiary	14	<u>(14,960,471)</u>	<u>(101,652,613)</u>
Net cash (used in) investing activities		<u>(14,960,471)</u>	<u>(101,446,774)</u>
<b>Financing activities</b>			
Proceeds from issue of share capital	7	2,842,367	95,252,216
Net proceeds from borrowings and grants	8	<u>15,642,974</u>	<u>27,199,976</u>
Net cash from financing activities		<u>18,485,342</u>	<u>122,452,192</u>
<b>Increase in cash and cash equivalents</b>		<u>5,767,739</u>	<u>3,550,218</u>
<b>Movement in cash and cash equivalents</b>			
At start of year		3,547,793	-
Increase		5,767,739	3,550,218
Effect of exchange rate changes		<u>(4,229)</u>	<u>(2,425)</u>
At end of year	17	<u>9,311,303</u>	<u>3,547,793</u>

The notes on pages 18 to 59 form an integral part of these financial statements.

Report of the independent auditor - pages 7 to 9.

## NOTES TO THE FINANCIAL STATEMENTS

### SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated 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) and IFRIC interpretations (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under 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 - Inventories or value in use in IAS 36 - Impairment of Assets.

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.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the group is provided in Note 20.

The financial performance of the group is set out in the report of the directors and in the consolidated statement of profit or loss and other comprehensive income. The financial position of the group is set out in the consolidated statement of financial position. Disclosures in respect of risk management are set out in Note 23 and disclosures in respect of capital management are set out in Note 24.

These financial statements comply with the requirements of the UK Companies Act, 2006. The statement of profit or loss and other comprehensive income represents 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

As at the reporting date the statement of financial position of the group had accumulated losses of Usd 77,846,265 (2018: Usd 67,619,945). The shareholders have confirmed continued support to ensure the group retains sufficient working capital to continue operations for the foreseeable future.

In assessing the company's ability to continue as a going concern, the directors have also prepared projected cash flows covering a period of not less than 12 months from the date of approval of these financial statements incorporating the effects from new products and increased market penetration and based on these projections they expect the company to be profitable after the next couple of years and utilise the accumulated losses.

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the improving performance of the group.

Based on the financial performance and position of the group and its risk management policies, the directors are of the opinion that the group is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Other standards and amendments**

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:

- 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 amortised 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.

**New standards, amendments and interpretations issued but not effective**

At the date of authorisation of these consolidated financial statements the following standards and interpretations, which have not been applied in these consolidated 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.

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**New standards, amendments and interpretations issued but not effective**

- 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) Key sources of estimation uncertainty**

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.

Management have made the following estimate that has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

**- Revenue recognition**

The group's sales comprise of the goods' income received for the item and the daily service fees charged to customers. The goods income is recognised immediately as a sale, net of Value Added Tax (VAT) and discounts in profit or loss in the year in which the purchase agreement is signed off by the customer. The service fees are recognised as income over the agreement period. The management estimates that each agreement runs over an average period of 24 months.

**- 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 assumption 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).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b) Key sources of estimation uncertainty (continued)**

**- Measurement of expected credit losses (ECL) (continued):**

The ECL model applied for financial assets other than trade receivables and 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.
- **Stage 3** - 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 180 days overdue will represent credit impairment (stage 3). The group uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions.

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

**- Useful lives of property and equipment and intangible assets**

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

**- Accounting for leases under IFRS 16**

Management has made various judgements and estimates under IFRS 16 as detailed below:

**Incremental borrowing rate:** To determine the incremental borrowing rate, the group:

- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g.. term, country, currency and security.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b) Key sources of estimation uncertainty (continued)**

**- Accounting for leases under IFRS 16 (continued)**

**Lease term/period:** In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of warehouses, retail stores and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend (or not terminate).
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability, because the group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

**- Deferred tax on tax losses**

The group has recognised deferred tax assets on tax losses. In determining whether these tax losses will be utilised, the management makes judgement as to whether these will be utilised before they are forfeited based on the requirement of the Tax Act. The management expects to utilise the tax losses before they expire.

The basis for recognition of the deferred tax asset is subject to the availability of future taxable profits and the management projections support its recognition notwithstanding recent losses. However achievement of such projections will be dependent on the volume number of kits being met and the net project margins being achieved.

**c) Revenue recognition**

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

**(i) Revenue from supply of solar equipment**

Sales of solar units are recognised upon delivery to, and acceptance by, the customer. Having accepted the goods, customers do not have the right to return them. There is no variable element to the contract price, and payment, less any deposit already paid, over the contractually agreed period.

Contracts for sale of goods and for installation include warranties providing customers with assurance that the related product will operate as intended and complies with the agreed-upon specifications. The warranty is not a distinct service, and provision is made for the estimated obligation arising.

**(ii) Finance income**

Finance income on contracts for sale of goods is accounted for under the effective interest rate method over the expected life of the financing period.



**NOTES (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**c) Revenue recognition (continued)**

**(iii) Other income**

Interest income is accounted for in the period in which it is earned.

**d) Grant income**

Grant income consists of funds from foundations, governmental agencies or others pursuant to grant contracts. The characteristics of each individual grant are considered to determine whether the grant should be classified as an exchange transaction, a contribution or a combination of both. The factors indicating an exchange transaction typically describe transactions where the resource provider expects to receive commensurate value (e.g. delivery and/or performance requirements) in exchange for the assets transferred and where the potential public benefits are secondary to the potential proprietary benefits to the resource provider. The factors indicative of a contribution tend to describe transactions where the value, if any, returned to the resource provider is incidental to potential public benefits.

Accordingly, income from exchange transactions is recorded as the costs are incurred for cost reimbursement grants or as the services are performed for operating and performance grants. Income from grants is reflected as grant income within other operating income in the income statement. Grants deemed to be contributions are recorded as income in the year that the grant is awarded.

**e) 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 group has power over the investee; 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.

When the company has assessed and has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of controls listed above.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit and loss and other comprehensive income from the date the company gains control until the date the company ceases to control the subsidiary.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition and up to the effective date of disposal as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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.

**NOTES (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**f) Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into United States Dollars (the functional currency), at the rates ruling at the transaction dates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income.

**- Group companies**

The results and financial position of the subsidiary companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that reporting date.
- income and expenses for each statement of comprehensive income are translated at average exchange rates.
- all resulting exchange differences are recognised under a separate component of equity.

Upon consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders equity.

**g) 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 group 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.

Capital work in progress is not depreciated.

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

	<b>Rate %</b>
Leasehold improvements	Period of lease
Motor vehicles	25.0
Furniture and fittings	12.5
Computers, copiers, faxes and office equipment	33.3

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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 reference to their carrying amount and are taken into account in determining loss before tax.

**NOTES (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**h) Intangible assets**

Computer software and licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software is amortised over its estimated useful life which is estimated to be at four years.

Costs associated with maintaining existing assets are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the company are recognised as intangible assets when the following criteria are met:

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

Once assets come into use, development costs are transferred to software and amortised over their estimated useful lives which is five years.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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 intangible assets are determined by reference to their carrying amount and are taken into account in determining profit before tax.

Capital work in progress is not amortised.

**i) Research and development**

Research expenditure is charged to the income statement in the period in which it is incurred.

Once development costs have been capitalised, the asset are amortised in accordance with the accruals concept over their finite lives. Amortisation only begins when commercial production has commenced (hence matching the income and expenditure to the period in which it relates).

Each development project is reviewed at the end of each accounting period to ensure that the recognition criteria are still met. If the criteria are no longer met, then the previously capitalised costs are written off to the profit and loss statement immediately.

At the company, expenditure on internally generated development activity is capitalised if the product or process is technically and commercially feasible, the company has sufficient resources to complete development, the company has intention to complete and use or sell it, it is probable that future economic benefits relating to the asset will flow to the company and the cost can be measured reliably. The expenditure capitalised includes the cost of materials. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the associated intangible asset. Other research and development expenditure is recognised in profit or loss as an expense when incurred.

Costs directly attributable to the development of computer software are capitalised as intangible assets only when technical feasibility of the project is demonstrated, the company has an intention and ability to complete and use the software and the costs can be measured reliably. Such costs include purchases of materials and services and payroll-related costs of employees directly involved in the project. Research costs are recognised as an expense when incurred.

**NOTES (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**j) Impairment of non-financial assets other than goodwill**

At the end of each reporting period, the group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**k) 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 group classifies its financial assets which include cash and bank, trade and other receivables and investments into the following category:

**- 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.

At initial recognition of a financial asset, the group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the group has not identified a change in its business models.

**Derecognition/write off**

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the group has transferred substantially all risks and rewards of ownership, or when the group has no reasonable expectations of recovering the asset.

Financial instruments that are subsequently measured at amortised cost are subject to impairment.

**Impairment**

The group recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost:

- Cash and cash equivalents
- Trade and other receivables

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).

**NOTES (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**k) Financial instruments (continued)**

**- Financial assets (continued)**

**Impairment (continued)**

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 reporting date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

**- Financial liabilities**

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

All financial liabilities are classified as non-current except those held for trading, those expected to be settled in the group's normal operating cycle, those payable or expected to be paid within 12 months of the reporting date and those which the group does not have an unconditional right to defer settlement for at least 12 months after the reporting date.

**- 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.

**l) Taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss.

**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.

**NOTES (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**m) Accounting for leases**

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.

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.

The above accounting policy has been applied from 1 January 2019. Note 20 sets out the equivalent policy applied in the previous year and the impact of the change in accounting policy.

**n) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost basis and comprises all costs attributable to bringing the inventories to their current location and condition. Net realisable value is the estimate of the selling price in the ordinary course of business and less the selling expenses.

**o) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks and treasury bills maturing within 91 days of the reporting date.

Restricted cash balances are those balances that the group cannot use for working capital purposes.

**p) Retirement benefit obligations**

The group operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The group's contributions to the defined contribution retirement benefit scheme are charged to profit or loss in the year to which they relate. The company has no further payment obligations once the contributions have been paid.

The group and its employees contribute to a statutory defined contribution scheme registered under the respective countries. The group's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

**NOTES (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**q) Employment benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

**r) Share based payments**

Employees (including senior executives) of the group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in the section 'valuation models and key assumptions used' (See Note 7 (b)). That cost is recognised in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The assumptions and models used for estimating fair value for share-based payment transactions are discussed further in Note 7(b) in the section 'valuation models and key assumptions used'.

**s) Share capital**

Ordinary shares are classified as equity. Preference shares are classified as equity.

**t) Comparatives**

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
<b>1. Revenue</b>				
Revenue from sales and related services	<u>69,179,958</u>	<u>58,344,600</u>	<u>-</u>	<u>-</u>

Group revenue was earned from its operations in East and West Africa and was earned from retailing of solar powered home lighting solutions, and other related products.

**2. Other operating income**

Grant income	1,646,576	1,692,768	-	-
Miscellaneous income	<u>945,924</u>	<u>233,716</u>	<u>5,310</u>	<u>-</u>
	<u>2,592,500</u>	<u>1,926,484</u>	<u>5,310</u>	<u>-</u>

**3. Operating loss**

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

Expected credit losses on cash and bank balances	68,342	49,999	-	-
Expected credit losses on trade receivables	1,546,585	2,229,018	-	-
Depreciation on property, plant and equipment (Note 11)	456,785	634,111	-	-
Amortisation of intangible assets (Note 12)	523,766	312,787	-	-
Depreciation on right of use assets (Note 13)	370,223	275,956	-	-
Auditor's remuneration				
- Audit services	85,000	72,000	11,000	13,500
- Non-audit services	26,000	55,680	-	-
Short term leases	<u>824,979</u>	<u>1,245,582</u>	<u>-</u>	<u>-</u>

**4. Staff costs**

Salaries and wages				
- direct	7,069,123	7,423,501	-	7,047
- indirect	1,670,699	1,781,052	-	-
Staff medical and welfare expenses	1,211,450	1,250,257	-	13,375
Pension costs:				
- National Social Security Fund	15,593	14,079	-	-
	<u>9,966,864</u>	<u>10,468,889</u>	<u>-</u>	<u>20,422</u>

The average number of persons employed during the year:

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Management and administration	244	220	-	-
Operations	<u>695</u>	<u>645</u>	<u>-</u>	<u>-</u>
	<u>939</u>	<u>865</u>	<u>-</u>	<u>-</u>

**5. Finance costs**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Interest expense:				
- loan interest	9,220,727	7,782,600	2,490,948	1,399,294
Foreign exchange loss	134,998	100,939	4,229	2,425
Interest on lease liabilities	<u>144,548</u>	<u>151,001</u>	<u>-</u>	<u>-</u>
	<u>9,500,273</u>	<u>8,034,540</u>	<u>2,495,177</u>	<u>1,401,719</u>



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Tax	Group		Company	
	2019 USD	2018 USD	2019 USD	2018 USD
Corporation tax	(204,372)	401,958	-	-
Deferred tax credit (Note 10)	(232,709)	(1,378,238)	-	-
	<u>(437,081)</u>	<u>(976,280)</u>	<u>-</u>	<u>-</u>

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

Loss before tax	(10,661,522)	(15,716,075)	(3,135,593)	(1,509,782)
Tax calculated at a tax rate of 30% (2018: 30%)*	(3,198,457)	(4,714,822)	(940,678)	(452,935)
Tax effect of:				
- profit relating to non taxable entities	-	1,259,904	-	-
- income not subject to tax	(11,443)	-	-	-
- expenses not deductible for tax	347,137	509,441	-	-
- deferred tax not recognised	1,907,450	-	-	-
- IFRS transition	-	1,591,796	-	-
- tax losses carried forward	-	-	940,678	452,935
- withholding tax expensed off	518,230	377,401	-	-
<b>Tax (credit)</b>	<u>(437,081)</u>	<u>(976,280)</u>	<u>-</u>	<u>-</u>

\* The group has used an effective tax rate of 30% as this is the rate that would be used to compute the taxes payable in the various jurisdictions that the group has commercial operations in, i.e. Kenya, Uganda and Tanzania.

For the United States income tax purposes, M-Kopa, LLC and M-Kopa Funding Limited, are taxed as a partnership to its U.S. partners. The LLC pays no income taxes; only its U.S. members pay income tax on the profits. M-Kopa Funding Limited's profits are not taxable. The Kenyan, Tanzanian and Ugandan subsidiaries are taxed as corporations, and as such, provide for the taxes on their profits at a rate of 30%. In the UK, taxes would be paid at the rate of 19%.

Tax losses expire as follows:

	USD	Expiry
- tax losses arising in 2012	425,137	31 December 2021
- tax losses arising in 2014	1,029,447	31 December 2023
- tax losses arising in 2015	4,922,872	31 December 2024
- tax losses arising in 2016	13,839,350	31 December 2025
- tax losses arising in 2017	12,280,245	31 December 2026
- tax losses arising in 2018	3,490,455	31 December 2027

7. Members' equity - group and company	Group and Company		Group and Company	
	2019 Shares *	2018 Shares *	2019 USD	2018 USD
7 (a). Fully paid common shares at par of USD 0.0001 per share	1,070,852	1,070,652	1,071	1,071
Share premium			4,506,017	4,504,417
Total common share capital and premium			<u>4,507,088</u>	<u>4,505,488</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 (a). Members' equity - group and company (continued)			Group and Company	
	2019	2018	2019	2018
	Shares *	Shares *	USD	USD
Fully paid preference shares at par of USD 0.0001 per share	3,435,754	3,406,324	3,436	3,406
Share premium			93,584,059	90,743,322
Total preferred share capital and premium			<u>93,587,495</u>	<u>90,746,728</u>
Total share capital and premium			98,094,583	95,252,216

\* On 26 April 2018, the group undertook a restructure whereby the ownership of the units in M-KOPA, LLC was transferred to an ownership of shares in M-KOPA Holdings Limited on a one unit for one share basis.

**Member interests**

Under the company's Articles of Association, membership interests in the Company consist of two classes of limited liability interests, common shares and preferred shares.

**Common shares**

Common shares consist of voting common shares and non voting common shares.

At 1 January 2019, the company had issued and outstanding 253,892 non voting common shares and 1,025,086 voting common shares (collectively the "Common shares"). In connection with the Company's Series E capitalisation, 854,414 shares of voting common shares were designated for issuance to founders and key members of management (see discussion of restricted stock awards below).

During the year, 200 (2018: no) voting common shares were issued under the share Option Plan (refer to note 7(b) for details).

Subject to the rights and privileges of other classes of shares, common share members are entitled to receive dividends on a pro rata basis when and if declared by the Board of Directors in cash, property or shares of the applicable class of common shares. Members holding voting common shares are entitled to one vote per share with certain restrictions on their ability to take action on certain matters, such as the company's certificate of formation or operating agreement.

**Restricted share awards**

In connection with the company's Series E capitalisation on 4 December 2015, the company granted awards of 787,600 shares of restricted voting common shares to the company founders ("Founder shares") and 66,814 shares of restricted common shares to a key employee ("Key employee shares"). The Founder and Key employee shares were fully vested at the time of issuance.

The company has a repurchase right to Founder and Key employee shares at the repurchase price, as defined in the operating agreement, upon the termination of a Founder or Key employee's employment with the company.

**Common share options**

The company has granted certain members of management common share options pursuant to the M-KOPA share Option Plan ("the share Option Plan"), full details of which are in note 7(b).

**Preferred shares**

Preferred shares consist of six series of limited liability company interests: Series A, Series B, Series C, Series D, Series E and Series F-2.

Members holding preferred shares are entitled to one vote per share with certain restrictions on their ability to take action on certain matters, such as the company's certificate of formation or operating agreement, without the prior approval of the Preferred Approving Group as defined in the operating agreement.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**7 (a). Members equity (continued)**

**Preferred shares**

Preferred shares consist of six series of limited liability company interests: Series A, Series B, Series C, Series D, Series E and Series F-2.

Members holding preferred shares are entitled to one vote per share with certain restrictions on their ability to take action on certain matters, such as the company's Articles of Association agreement, without the prior approval of the Preferred Approving Group as defined in the Articles of Association.

Preferred share holders have the right to convert, at any time, preferred shares into a number of voting common shares equal to the conversion rate, as defined in the Articles of Association.

During the year, the company issued 29,424 shares for total consideration of \$1,090,798 before issue costs.

**7 (b). Employee Share Option Plan**

Under the Employee Share Option Plan (ESOP), share options of the parent are granted to the founders and key employees to attract and retain the best available personnel for positions of substantial responsibility and to promote the success of the company's business. Options to purchase a maximum of 495,924 (2018: 495,924) voting common shares are available under the ESOP.

The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The share options are subject to four year vesting, which is conditioned on each such key employee's continued employment with the company. One-fourth (1/4th) of the share options vest on the first anniversary of the date such shares were granted and 3/144ths of such restricted common shares vest on the first date of each month thereafter for thirty-six (36) months.

The company has a repurchase right to founders and key employees at the repurchase price, as defined in the operating agreement, upon termination of founders or key employment with the company.

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions on which the share options were granted. However, the above performance condition is only considered in determining the number of instruments that will ultimately vest.

The share options can be exercised up to ten years from the date of grant, and therefore, the contractual term of each option granted is ten years. There are cash settlement alternatives but the group does not have a past practice of cash settlement for these share options. The group accounts for the ESOP as an equity-settled plan.

In 2018 the ESOP was modified due to the corporate reorganization. M-Kopa LLC (the "Company") has effected a corporate reorganization which resulted in that M-KOPA LLC became the wholly-owned subsidiary of M-KOPA Holdings Limited (the "Parent") and the former shareholders of M-Kopa LLC became the shareholders of the Parent (the "Reorganization") which became effective on 26 April 2018. In connection with the Reorganisation and pursuant to Section 8 of M-Kopa LLC share Option Plan (the "ESOP"), Parent assumed the ESOP and the options to purchase shares of M-Kopa LLC were converted as of effective date into options to purchase shares of the Parent.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**7 (b). Employee Share Option Plan (continued)**

**Movements during the year**

The following table illustrates the number and the weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	Number of options	WAEP USD
Outstanding at 1 January 2018	<b>189,655</b>	<b>7.64</b>
Granted during the year	41,952	8.00
Forfeited during the year	(32,248)	8.00
Outstanding at 31 December 2018	<b>199,359</b>	<b>7.83</b>
Exercisable at 31 December 2018	145,457	7.52
Outstanding at 1 January 2019	<b>199,359</b>	<b>7.83</b>
Granted during the year	15,853	8.00
Forfeited during the year	(9,520)	8.00
Outstanding at 31 December 2019	<b>205,692</b>	<b>7.83</b>
Exercisable at 31 December 2019	182,195	7.52

The weighted average price at the date of exercise of these options was \$0.88 (2018: \$1.28).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 7.31 years (2018: 7.31 years).

The weighted fair value of options granted during the year was \$1.27 (2018: \$1.27).

The range of exercise prices for options outstanding at the end of the year was \$3.62 to \$8.00 (2018: \$3.62 to \$8.00).

**Valuation models and key assumptions used**

The following table list the inputs to the model used for the share option plan for the years ended 31 December 2019 and 2018 respectively:

	2019	2018
Weighted average fair values at measurement date (USD)	0.88	1.33
Expected volatility (%)	17.50	0.10
Risk free interest rate (%)	0.83	0.01
Expected list of share options (years)	10.00	10.00
Weighted average share price (USD)	6.03	7.60
Model used	<u>Binominal</u>	<u>Binominal</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**8. Borrowings and grants**

	Group		Company	
	2019 USD	2018 USD	2019 USD	2018 USD
The borrowings and grants are made up as follows:				
<b>Non-current</b>				
Bank loans	38,070,761	22,914,699	-	14,437
Shareholder loan (Note 22)	11,000,000	-	11,000,000	-
Third party investor loans	18,870,950	18,709,988	18,870,950	18,695,551
Repayable grants	749,715	750,087	-	-
Other grants	39,091	1,355,279	-	-
	<u>68,730,516</u>	<u>43,730,053</u>	<u>29,870,950</u>	<u>18,709,988</u>
<b>Current</b>				
Third party investor loans	12,972,000	8,489,988	12,972,000	8,489,988
Other grants	16,754	-	-	-
Invoice financing	1,140,064	-	-	-
	<u>14,128,817</u>	<u>8,489,988</u>	<u>12,972,000</u>	<u>8,489,988</u>
	<u>82,859,334</u>	<u>52,220,041</u>	<u>42,842,950</u>	<u>27,199,976</u>

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

	Group		Company	
	2019 USD	2018 USD	2019 USD	2018 USD
0 - 12 months	14,128,817	8,489,988		
1 - 5 years	57,730,516	25,020,065	18,870,950	18,709,988
Over 5 years	11,000,000	18,709,988	11,000,000	-
	<u>82,859,334</u>	<u>52,220,041</u>	<u>29,870,950</u>	<u>18,709,988</u>

	2019 %	2018 %	2019 %	2018 %
The effective interest rates at the year end were as follows:				
Shareholder loans	25%	-	25%	-
Bank loans	13 - 15%	14 - 15%	-	-
Third party investor loans	10 - 15.5%	10 - 17%	10 - 15.5%	10 - 17%

Repayable grants are interest free.

**Reconciliation of liabilities**

arising from financing activities:

	Invoice financing USD	Other borrowings USD	Third party investor loans USD	Bank loans USD	Total USD
<b>Year ended 31 December 2019</b>					
At start of year	-	2,105,366	27,199,976	23,886,992	53,192,333
Translation adjustment	8,203	-	-	79,501	87,703
Interest charged to profit or loss	911,269	-	-	5,156,069	6,067,338
Foreign exchange (gain)	-	(372)	-	-	(372)
Cash flows:					
- Operating activities (interest)	(911,269)	-	-	(4,989,768)	(5,901,037)
- Proceeds from long-term	4,258,775	11,055,845	4,642,974	13,937,967	33,895,561
- Repayments of long-term	(3,126,914)	(1,355,279)	-	-	(4,482,193)
At end of year	<u>1,140,064</u>	<u>11,805,559</u>	<u>31,842,950</u>	<u>38,070,761</u>	<u>82,859,334</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

<b>8. Borrowings and grants (continued)</b>	<b>Third party investor loans USD</b>	<b>Bank loans USD</b>	<b>Total USD</b>
<b>Year ended 31 December 2018</b>			
At start of year	31,842,950	35,770,286	67,613,236
Interest charged to profit or loss	-	6,332,028	6,332,028
Foreign exchange (gain)	-	(132,765)	(132,765)
Cash flows:			
- Operating activities (interest	-	(6,193,242)	(6,193,242)
- Proceeds from long-term	-	3,503,180	3,503,180
- Repayments of long-term	(4,642,974)	(14,259,422)	(18,902,396)
At end of year	<u>27,199,976</u>	<u>25,020,065</u>	<u>52,220,041</u>

The bank loans are secured by a debenture on all assets of the group.

Third party investor loans are unsecured.

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

	<b>Group</b>		<b>Company</b>	
	<b>2019 USD</b>	<b>2018 USD</b>	<b>2019 USD</b>	<b>2018 USD</b>
Kenya Shilling	33,643,255	21,465,232	-	-
Uganda Shilling	4,427,506	3,582	-	-
Nigerian Naira	55,842	-	-	-
US Dollar	<u>44,732,731</u>	<u>30,751,226</u>	<u>42,842,950</u>	<u>27,199,976</u>
	<u>82,859,334</u>	<u>52,220,041</u>	<u>42,842,950</u>	<u>27,199,976</u>

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

	<b>Group</b>		<b>Company</b>
	<b>2019 USD</b>	<b>2018 USD</b>	<b>2019 USD</b>
Within 1 year	14,128,817	8,489,988	-
Between 1 and 2 years	26,996,266	13,000,000	-
Between 2 and 5 years	<u>41,734,251</u>	<u>30,730,053</u>	<u>-</u>
	<u>82,859,334</u>	<u>52,220,041</u>	<u>27,199,976</u>

	<b>Group</b>		<b>Company</b>	
	<b>2019 USD</b>	<b>2018 USD</b>	<b>2019 USD</b>	<b>2018 USD</b>
Undrawn facilities as at the reporting date were as follows:				
Bank borrowings	<u>26,356,745</u>	<u>28,534,768</u>	<u>-</u>	<u>-</u>

<b>9. Lease liabilities</b>	<b>Group</b>	
	<b>2019 USD</b>	<b>2018 USD</b>
Non-current	554,138	544,277
Current	<u>428,834</u>	<u>387,801</u>
	<u>982,972</u>	<u>932,078</u>

The total cash outflow for leases in the year was:

	<b>2019 USD</b>	<b>2018 USD</b>
Payments of principal portion of the lease liability	354,754	247,937
Interest paid on lease liabilities	<u>145,442</u>	<u>151,001</u>
	<u>500,195</u>	<u>398,938</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**9. Lease liabilities (continued)**

	<b>Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Reconciliation of lease liabilities arising from financing activities:		
At start of year	932,078	-
Transition adjustment (Note 20)	32,841	1,120,587
Interest charged to profit or loss	144,548	151,001
Translation	(1,505)	7,023
Cash flows:		
- Amounts financed through leases	341,849	52,406
- Payments under leases	(466,838)	(398,938)
At end of year	<u>982,972</u>	<u>932,078</u>

Lease liabilities are unsecured.

The leases expiring within one year are subject to review at various dates during the next financial year.

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

	<b>Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
0 - 12 months	554,138	544,277
1 - 5 years	428,834	387,801
	<u>982,972</u>	<u>932,078</u>

	<b>2019</b>	<b>2018</b>
	<b>%</b>	<b>%</b>
Weighted average effective interest rates at the reporting date was:	13	13

The carrying amounts of the group's lease liabilities are denominated in the following currencies:

	<b>Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Kenya Shilling	424,327	572,856
Uganda Shilling	301,279	359,222
Great Britain Pound	257,366	-
	<u>982,972</u>	<u>932,078</u>

Maturity based on the repayment structure of lease liabilities is as follows:

	<b>Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Gross lease liabilities - minimum lease payments		
Not later than 1 year	627,976	612,704
Later than 1 year and not later than 5 years	588,920	478,570
Total gross lease	1,216,896	1,091,274
Future interest expense on leases liabilities	(233,924)	(159,196)
Present value of lease liabilities	<u>982,972</u>	<u>932,078</u>

Present value of lease liabilities - minimum lease payments

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Not later than 1 year	428,834	387,801
Later than 1 year and not later than 5 years	554,138	544,277
	<u>982,972</u>	<u>932,078</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**10. 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:

	<b>Group</b>		<b>Company</b>	
	<b>2019 USD</b>	<b>2018 USD</b>	<b>2019 USD</b>	<b>2018 USD</b>
At start of year - as previously stated	(12,254,023)	(11,104,811)	-	-
Effect of transition to IFRS (Note 20)	(1,591,796)	(1,263,899)	-	-
At start of year - as restated	(13,845,819)	(12,368,710)	-	-
Translation	(61,286)	(98,871)	-	-
Credit to profit or loss (Note 6)	(232,709)	(1,378,238)	-	-
At end of year	(14,139,814)	(13,845,819)	-	-

Deferred tax assets, and deferred tax credit to profit or loss are attributable to the following items:

<b>Group</b>	<b>At start of year USD</b>	<b>Effect of transition to IFRS USD</b>	<b>At start of year USD</b>	<b>Translation USD</b>	<b>(Credit)/ charge to profit or loss USD</b>	<b>At end of year USD</b>
<b>Deferred tax assets</b>						
Property, plant and equipment	(94,613)		(94,613)	(11,233)	(19,797)	(125,643)
Lease liabilities	-	(171,857)	(171,857)	266	44,293	(127,298)
Right of use assets	-	166,253	166,253	(337)	(56,247)	109,669
Expected credit losses	-	(1,431,613)	(1,431,613)	(3,064)	(510,680)	(1,945,357)
Unrealised exchange differences	(165,346)		(165,346)	47,360	76,034	(41,952)
Provisions	(922,117)	(61,874)	(983,991)	120,360	(546,397)	(1,410,028)
Tax losses	(11,071,947)	(92,705)	(11,164,652)	(214,638)	780,085	(10,599,205)
<b>Net deferred tax asset</b>	<b>(12,254,023)</b>	<b>(1,591,796)</b>	<b>(13,845,819)</b>	<b>(61,286)</b>	<b>(232,709)</b>	<b>(14,139,814)</b>

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 USD 10,599,205 (2018: USD 11,164,652) in respect of tax losses carried forward amounting to USD 35,330,684 (2018: USD 37,215,507) that can be carried forward against future taxable profits have been recognised.

As referred to in Note 25 on events after the reporting period, subsequent to the period end the corporate tax rate in Kenya was reduced from 30% to 25%. This will have the impact of reducing the carrying value of net deferred tax assets in future. Were this change to have been applied to the balances as at 31 December 2019, the carrying value of deferred tax assets would have reduced from Usd 14,139,814 to Usd 11,863,763 with the resulting difference of Usd 2,276,051 charged to profit or loss as tax expense.

**11. Property, plant and equipment - Group**

**Year ended 31 December 2019**

	<b>Leasehold improvements USD</b>	<b>Motor vehicles USD</b>	<b>Furniture and fittings USD</b>	<b>Computers, copiers faxes and office equipment USD</b>	<b>Work in progress USD</b>	<b>Total USD</b>
<b>Cost</b>						
At start of year	459,729	398,596	657,976	1,744,892	30,877	3,292,070
Additions	4,373	4,413	76,539	228,364	5,531	319,220
Disposals	-	(70,741)	(14,662)	-	-	(85,403)
Translation	2,082	2,734	4,126	8,844	2,176	19,962
At end of year	466,184	335,002	723,979	1,982,100	38,584	3,545,849
<b>Depreciation</b>						
At start of year	194,258	273,247	266,666	1,423,516	-	2,157,688
Disposals	-	(68,024)	(13,994)	-	-	(82,018)
Charge for the year	38,840	71,205	104,429	242,310	-	456,785
Translation	880	1,811	1,650	9,084	-	13,425
At end of year	233,978	278,240	358,750	1,674,911	-	2,545,879
<b>Net book value</b>	<b>232,205</b>	<b>56,762</b>	<b>365,228</b>	<b>307,190</b>	<b>38,584</b>	<b>999,970</b>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11. Property, plant and equipment (continued)**

Reconciliation of additions during the year					2019 USD	2018 USD
Additions acquired through cash					318,720	164,977
Year ended 31 December 2018						
	Leasehold improvements USD	Motor vehicles USD	Furniture and fittings USD	Computers, copiers faxes and office equipment USD	Work in progress USD	Total USD
Cost						
At start of year	453,868	401,407	643,614	1,671,828	30,483	3,201,200
Additions	-	52,035	11,332	101,610	-	164,977
Disposals	-	(91,509)	(44,324)	(152,920)	-	(288,753)
Impairment	-	-	-	(20,367)	-	(20,367)
Translation	5,861	36,663	47,354	144,741	394	235,013
At end of year	459,729	398,596	657,976	1,744,892	30,877	3,292,070
Depreciation						
At start of year	153,474	236,699	180,509	1,077,603	-	1,648,285
Disposals	-	(65,966)	(11,140)	(109,318)	-	(186,424)
Charge for the year	38,802	88,288	90,538	416,483	-	634,111
Impairment	-	-	-	(20,367)	-	(20,367)
Translation	1,982	14,226	6,759	59,115	-	82,083
At end of year	194,258	273,247	266,666	1,423,516	-	2,157,688
Net book value	265,471	125,349	391,310	321,376	30,877	1,134,382

**12. Intangible assets - Group**

<b>Year ended 31 December 2019</b>		<b>Computer Software USD</b>	<b>Work in progress USD</b>	<b>Total USD</b>
<b>Cost</b>				
At start of year		1,966,250	195,553	2,161,803
Additions		1,027,053	314,213	1,341,267
Transfers		260,000	(260,000)	-
Translation		10,414	49,321	59,734
At end of year		3,263,717	299,087	3,562,804
<b>Amortisation</b>				
At start of year		502,608	-	502,608
Charge for the year		523,766	-	523,766
Translation		13,041	-	13,041
At end of year		1,039,415	-	1,039,415
<b>Net book amount</b>		<b>2,224,302</b>	<b>299,087</b>	<b>2,523,389</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12. Intangible assets (continued)**

Year ended 31 December 2018	Computer Software USD	Work in progress USD	Total USD
<b>Cost</b>			
At start of year	833,504	744,996	1,578,500
Additions	480,941	202,312	683,253
Transfers	643,660	(643,660)	-
Disposals	-	(54,711)	(54,711)
Translation	8,145	(53,384)	(45,239)
At end of year	1,966,250	195,553	2,161,803
<b>Amortisation</b>			
At start of year	194,798	-	194,798
Charge for the year	312,787	-	312,787
Translation	(4,977)	-	(4,977)
At end of year	502,608	-	502,608
<b>Net book amount</b>	<u>1,463,642</u>	<u>195,553</u>	<u>1,659,195</u>

Amortisation costs amounting to USD. 523,766 (2018: USD. 312,787) are included in other operating expenses in the statement of profit or loss and other comprehensive income.

**13. Right-of use assets**

Office buildings	Group	
	2019 USD	2018 USD
<b>Group</b>		
At start of year	825,219	1,048,440
Effect of transition	30,661	-
Additions	342,556	52,735
	1,198,436	1,101,175
Depreciation charge for the year	(370,223)	(275,956)
At end of year	<u>828,213</u>	<u>825,219</u>

The group leases various offices. The leases of offices are typically for periods of between 2 and 5 years, with no options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

In the statement of cash flows, the amount for payments for right-of-use assets represents:

	Group	
	2019 USD	2018 USD
Additions, as above	342,556	52,735
Less: amounts financed through lease liabilities	(342,556)	(52,735)
	<u>-</u>	<u>-</u>

For information on the related lease liabilities, see Note 9.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**14. Investment in subsidiaries**

The composition of the group is as follows:

Subsidiary	Country of incorporation	Holding		Company	
		2019	2018	2019 USD	2018 USD
M-Kopa LLC	USA - Delaware	100%	100%	<u>116,613,084</u>	<u>101,652,613</u>

The following entities beneficial shareholders' prior to 1 January 2019 are the same shareholders of M-Kopa Holdings Limited, a company incorporated on 31 July 2017 in the United Kingdom:

Subsidiary	Country of incorporation of entity	% holding	Nature of business	Class of shares	Holding
M-Kopa Kenya Limited	Kenya	100%	Sale of solar home systems	Ordinary	Indirect
M-Kopa Uganda Limited	Uganda	100%	Sale of solar home systems	Ordinary	Indirect
M-Kopa Solar Tanzania Limited	Tanzania	100%	Sale of solar home systems	Ordinary	Indirect
M-Kopa Solar Nigeria Limited	Nigeria	100%	Sale of solar home systems	Ordinary	Indirect
M-Kopa UK Limited	United Kingdom	100%	Research and development	Ordinary	Indirect
M-Kopa Hong Kong Limited	Hong Kong	100%	Procurement of products for sale	Ordinary	Indirect
M-Kopa Funding Limited	Cayman Islands	100%	Dormant intermediate	Ordinary	Indirect
M-Kopa, LLC	United States of America	100%	Holding company	Ordinary	Direct
M-Kopa IPR, LLC	United States of America	100%	Dormant	Ordinary	Indirect
M-Kopa Services, LLC	United States of America	100%	Dormant	Ordinary	Indirect

	Group		Company	
	2019 USD	2018 USD	2019 USD	2018 USD
<b>15. Inventories</b>				
Devices	10,828,931	5,493,500	-	-
Add-ons	349,120	1,011,473	-	-
Goods in transit	871,658	3,556,534	-	-
	<u>12,049,708</u>	<u>10,061,507</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Trade and other receivables	Group		Company	
	2019 USD	2018 USD	2019 USD	2018 USD
<b>Non-current</b>				
Receivable from subsidiaries (Note 22)	-	-	9,187,432	-
Trade receivables	71,326,630	50,983,354	-	-
Other receivables	307,809	418,356	26,700	194
Prepayments	6,088,652	7,746,590	-	40,125
Receivable from subsidiaries (Note 22)	-	-	2,304,376	16,329,373
Less: provision for expected credit losses	(12,710,691)	(11,164,106)	-	-
Net trade and other receivables	65,012,400	47,984,194	2,331,076	16,369,692
<b>Total trade and other receivables</b>	<b>65,012,400</b>	<b>47,984,194</b>	<b>11,518,508</b>	<b>16,369,692</b>

Group	Gross amount USD	2019 ECL allowance USD	Carrying amount USD	Gross amount USD	2018 Loss provision USD	Carrying amount USD
Trade receivables	71,326,630	(12,710,691)	58,615,939	50,983,354	(11,164,106)	39,819,248
Other receivables	307,809	-	307,809	418,356	-	418,356
Prepayments	6,088,652	-	6,088,652	7,746,590	-	7,746,590
	<u>77,723,091</u>	<u>(12,710,691)</u>	<u>65,012,400</u>	<u>59,148,300</u>	<u>(11,164,106)</u>	<u>47,984,194</u>

Company						
Trade receivables	-	-	-	-	-	-
Other receivables	26,700	-	26,700	194	-	194
Receivable from subsidiaries (Note 22)	11,491,808	-	11,491,808	16,329,373	-	16,329,373
Prepayments	-	-	-	40,125	-	40,125
	<u>11,518,508</u>	<u>-</u>	<u>11,518,508</u>	<u>16,369,692</u>	<u>-</u>	<u>16,369,692</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

Trade receivables relate primarily to contracted payments due for provision of solar home light solutions. The directors are of the opinion that the group's exposure is limited because the debt is widely held. There is also no significant concentration of credit risk.

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

The carrying amounts of the company's trade and other receivables are denominated in the following currencies:

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Kenya Shillings	55,615,902	41,651,903	-	-
Uganda Shillings	7,423	5,921	-	-
Great Britain Pound	1,011,855	423,739	-	-
United States Dollar	8,377,220	5,902,632	11,518,508	16,369,692
	<u>65,012,400</u>	<u>47,984,194</u>	<u>11,518,508</u>	<u>16,369,692</u>

Trade receivables that are aged past 30 days are considered past due but not impaired.

No classes within trade and other receivables contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
<b>17. Cash and cash equivalents</b>				
Cash at bank and in hand	14,275,420	8,355,535	9,311,302	3,547,793
Restricted bank balances	5,914,288	4,912,897	-	-
Less: Expected credit loss provisions	(68,342)	(49,999)	-	-
	<u>20,121,366</u>	<u>13,218,433</u>	<u>9,311,302</u>	<u>3,547,793</u>

For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:

Cash at bank and in hand	4,397,569	3,203,687	9,311,302	3,547,793
Investments	15,723,797	10,014,746	-	-
	<u>20,121,366</u>	<u>13,218,433</u>	<u>9,311,302</u>	<u>3,547,793</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**17. Cash and cash equivalents (continued)**

The carrying amounts of the group's and company's cash and cash equivalents are denominated in the following currencies:

	<b>Group</b>		<b>Company</b>	
	<b>2019 USD</b>	<b>2018 USD</b>	<b>2019 USD</b>	<b>2018 USD</b>
Kenya Shillings	4,086,018	2,437,315	-	-
Tanzania Shillings	4,648	-	-	-
Nigeria Naira	72,717	-	-	-
Great Britain Pound	922,951	5,597,785	-	-
Uganda Shillings	580,731	203,088	-	-
United States Dollars	14,454,300	4,980,245	9,311,302	3,547,793
	<u>20,121,366</u>	<u>13,218,433</u>	<u>9,311,302</u>	<u>3,547,793</u>

Restricted bank balances relate to bank balances that are held as loan security with Stanbic Bank Kenya Limited and balances relating to upfront cash received in respect of grants.

Expected credit losses for the year have been accounted as follows:

	<b>2019 USD</b>	<b>2018 USD</b>
At start of the year	5,674	-
Translation	(408)	-
Provision for the year	(67,935)	5,674
At end of year	<u>(62,668)</u>	<u>5,674</u>

	<b>Group</b>		<b>Company</b>	
<b>18. Trade and other payables</b>	<b>2019 USD</b>	<b>2018 USD</b>	<b>2019 USD</b>	<b>2018 USD</b>
Trade payables	2,408,440	795,847	370,938	6,766
Accrued expenses	8,003,585	6,282,260	573,959	408,036
Other payables	1,999,782	1,473,476	-	-
Payable to related parties (Note 22)	-	-	-	7,047
	<u>12,411,808</u>	<u>8,551,583</u>	<u>944,897</u>	<u>421,849</u>

The maturity analysis of trade and other payables is as follows:

<b>Group</b>	<b>Up to 3 months USD</b>	<b>4 to 12 months USD</b>	<b>Total USD</b>
<b>Year ended 31 December 2019</b>			
Trade payables	1,877,351	531,089	2,408,440
Accrued expenses	5,127,999	2,875,586	8,003,585
Other payables	835,768	1,164,014	1,999,782
	<u>7,841,118</u>	<u>4,570,689</u>	<u>12,411,808</u>
<b>Year ended 31 December 2018</b>			
Trade payables	560,386	235,461	795,847
Accrued expenses	4,480,077	1,802,183	6,282,260
Other payables	549,425	924,051	1,473,476
	<u>5,589,888</u>	<u>2,961,694</u>	<u>8,551,583</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

Company	Up to 3 months USD	4 to 12 months USD	Total USD
<b>Year ended 31 December 2019</b>			
Trade payables	370,938	-	370,938
Other payables	573,959	-	573,959
	<u>944,897</u>	<u>-</u>	<u>944,897</u>
<b>Year ended 31 December 2018</b>			
Trade payables	6,766	-	6,766
Other payables	408,036	-	408,036
Payable to related parties	-	7,047	7,047
	<u>414,802</u>	<u>7,047</u>	<u>421,849</u>

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

The carrying amounts of the group's and company's trade and other payables are denominated in the following currencies:

	<b>Group</b>		<b>Company</b>	
	<b>2019 USD</b>	<b>2018 USD</b>	<b>2019 USD</b>	<b>2018 USD</b>
Kenya Shillings	4,083,411	3,273,010	-	-
Uganda Shillings	1,504,318	1,255,486	-	-
United States Dollars	6,824,079	4,023,086	944,897	421,849
	<u>12,411,808</u>	<u>8,551,583</u>	<u>944,897</u>	<u>421,849</u>

**19. Cash (used in)/from operations**

	<b>Group</b>		<b>Company</b>	
	<b>2019 USD</b>	<b>2018 USD</b>	<b>2019 USD</b>	<b>2018 USD</b>
Reconciliation of loss before tax to cash (used in)/from operations:				
Loss before tax	(10,661,522)	(15,716,075)	(3,135,593)	(1,509,782)
<b>Adjustments for:</b>				
Depreciation on property and equipment (Note 11)	456,785	634,111	-	-
Depreciation on right-of-use assets (Note 11)	370,223	275,956	-	-
Amortisation of intangible assets (Note 12)	523,766	312,787	-	-
Loss on disposal of property, plant and equipment	3,385	157,040	-	-
Foreign exchange gain (Note 5)	134,998	(87,122)	4,229	2,425
Interest expense (Note 5)	9,220,727	7,782,607	2,490,948	1,399,294
Impairment of cash and bank balances	-	49,768	-	-
Impairment of trade and other receivables	-	-	-	-
Changes in working capital				
- inventories	(1,988,201)	(2,633,686)	-	-
- trade and other receivables	(17,028,206)	(15,782,026)	4,851,184	-
- trade and other payables	3,860,225	539,257	523,048	(16,369,692)
- restricted bank balances	(1,001,391)	-	-	421,849
Cash (used in)/from operations	<u>(16,109,211)</u>	<u>(24,467,383)</u>	<u>4,733,816</u>	<u>(16,055,906)</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**20. Transition to IFRS**

As stated in Significant accounting policy (a), these are the group's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in these financial statements have been applied in preparing the financial statements for the year ended 31 December 2019, the comparative information presented in these financial statements for the year ended 31 December 2018 and in the preparation of an opening IFRS statement of financial position at 1 January 2018 (the Group's date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with IFRS for SME/FRS 102. An explanation of how the transition from previous IFRS for SME's/FRS 102 to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

**a) Reconciliation of statement of financial position**

		As at 31 December 2018			As at 1 January 2018		
Group	Notes	IFRS for SME/FRS 102 USD	Effect of transition to IFRS USD	IFRS USD	IFRS for SME/FRS 102 USD	Effect of transition to IFRS USD	IFRS USD
<b>CAPITAL EMPLOYED</b>							
Members equity, common		4,505,488	-	4,505,488	4,505,488	-	4,505,488
Members equity, preferred		90,746,728	-	90,746,728	67,482,921	-	67,482,921
Share based payment reserve		205,840	-	205,840	205,840	-	205,840
Translation reserve		(593,958)	(63,293)	(657,251)	(635,973)	-	(635,973)
Accumulated losses		(62,577,191)	(5,044,633)	(67,621,824)	(49,381,981)	(3,497,869)	(52,879,850)
<b>Shareholders' funds</b>		<b>32,286,907</b>	<b>(5,107,926)</b>	<b>27,178,981</b>	<b>22,176,295</b>	<b>(3,497,869)</b>	<b>18,678,426</b>
<b>Non-current liabilities</b>							
Borrowings and grants		43,730,053	-	43,730,053	(1,546,764)	(2,180)	31,240,878
Lease liabilities	21(iii), 8	-	544,277	544,277	31,240,878	-	31,240,878
		<u>43,730,053</u>	<u>544,277</u>	<u>44,274,330</u>	<u>31,240,878</u>	<u>521,527</u>	<u>31,762,405</u>
		<u>76,016,960</u>	<u>(4,563,649)</u>	<u>71,453,311</u>	<u>53,417,173</u>	<u>(2,976,342)</u>	<u>50,440,831</u>
<b>REPRESENTED BY</b>							
<b>Non-current assets</b>							
Deferred tax	9	12,254,022	1,591,796	13,845,818	11,104,811	1,263,899	12,368,710
Property, plant and equipment		1,134,382	-	1,134,382	1,552,915	-	1,552,915
Right of use assets	13	-	855,880	855,880	-	1,039,469	1,039,469
Intangible assets		1,659,195	-	1,659,195	1,383,702	-	1,383,702
		<u>15,047,599</u>	<u>2,447,676</u>	<u>17,495,275</u>	<u>14,041,428</u>	<u>2,303,368</u>	<u>16,344,796</u>
<b>Current assets</b>							
Inventories		10,061,507	-	10,061,507	7,427,821	-	7,427,821
Trade and other receivables	21(i), 21(ii)	54,318,630	(6,334,436)	47,984,194	36,708,848	(3,679,685)	33,029,163
Cash and cash equivalents	17	13,268,432	(49,999)	13,218,433	18,157,538	(54,673)	18,102,865
Tax recoverable		156,113	-	156,113	-	-	-
		<u>77,804,682</u>	<u>(6,384,435)</u>	<u>71,420,247</u>	<u>62,294,207</u>	<u>(3,734,358)</u>	<u>58,559,849</u>
<b>Current liabilities</b>							
Lease liabilities	21(iii), 8	-	420,642	420,642	-	599,060	599,060
Borrowings and grants		8,489,988	-	8,489,988	15,223,750	-	15,223,750
Trade and other payables		8,345,333	206,248	8,551,581	7,694,712	946,293	8,641,005
		<u>16,835,321</u>	<u>626,890</u>	<u>17,462,211</u>	<u>22,918,462</u>	<u>1,545,352</u>	<u>24,463,814</u>
<b>Net current assets</b>		<b>60,969,361</b>	<b>(7,011,325)</b>	<b>53,958,036</b>	<b>39,375,745</b>	<b>(5,279,710)</b>	<b>34,096,035</b>
		<u>76,016,960</u>	<u>(4,563,649)</u>	<u>71,453,311</u>	<u>53,417,173</u>	<u>(2,976,342)</u>	<u>50,440,831</u>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**20. Transition to IFRS (continued)**

b) Reconciliation of profit or loss and other comprehensive income	Notes	As at 31 December 2018		
		IFRS for SME/FRS 102 USD	Effect of transition to IFRS USD	IFRS USD
<b>Group</b>				
Revenue	21 (ii)	58,589,365	(244,765)	58,344,600
Cost of sales	21 (i)	<u>(36,949,759)</u>	<u>(1,582,991)</u>	<u>(38,532,750)</u>
<b>Gross profit</b>		21,639,606	(1,827,756)	19,811,850
Other operating income		1,926,484	-	1,926,484
Selling and distribution expenses		(9,496,695)	-	(9,496,695)
Administrative expenses	21 (i)	(18,363,489)	5,648	(18,357,841)
Other operating expenses	21 (iii)	<u>(1,690,510)</u>	<u>125,177</u>	<u>(1,565,333)</u>
<b>Operating loss</b>		(5,984,604)	(1,696,931)	(7,681,535)
Finance costs	21 (iii)	<u>(7,883,546)</u>	<u>(150,994)</u>	<u>(8,034,540)</u>
<b>Loss before tax</b>		(13,868,150)	(1,847,924)	(15,716,074)
Tax		<u>672,940</u>	<u>303,340</u>	<u>976,280</u>
<b>Loss for the year</b>		<u>(13,195,210)</u>	<u>(1,544,584)</u>	<u>(14,739,794)</u>
<b>Other comprehensive income:</b>				
- Exchange differences on translation of foreign operations		<u>(593,958)</u>	<u>(63,293)</u>	<u>(657,251)</u>
<b>Total comprehensive loss for the year</b>		<u>(13,789,168)</u>	<u>(1,607,877)</u>	<u>(15,397,045)</u>
<b>Company</b>				
Revenue		-	-	-
Other operating income		-	-	-
Administrative expenses		<u>(108,063)</u>	-	<u>(108,063)</u>
<b>Operating (loss)</b>		(108,063)	-	(108,063)
Finance costs		<u>(1,401,719)</u>	-	<u>(1,401,719)</u>
<b>(Loss) before tax</b>		(1,509,782)	-	(1,509,782)
Tax		<u>-</u>	<u>-</u>	<u>-</u>
<b>(Loss) for the year</b>		<u>(1,509,782)</u>	<u>-</u>	<u>(1,509,782)</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

		As at 1 January 2018 and 31 December 2018	
20. Transition to IFRS (continued)		Effect of	
Reconciliation of statement of financial position		transition to	
Company	IFRS for SME/FRS 102 USD	IFRS USD	IFRS USD
<b>CAPITAL EMPLOYED</b>			
Share capital	95,252,216		95,252,216
Share based payments reserve	205,839	-	205,839
Accumulated (losses)	(1,509,782)	-	(1,509,782)
<b>Shareholders' funds</b>	<u>93,948,273</u>	<u>-</u>	<u>93,948,273</u>
<b>Non-current liabilities</b>			
Borrowings	18,709,988	-	18,709,988
	<u>112,658,261</u>	<u>-</u>	<u>112,658,261</u>
<b>REPRESENTED BY</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	101,652,613	-	101,652,613
<b>Current assets</b>			
Trade and other receivables	16,369,692	-	16,369,692
Cash and cash equivalents	3,547,793	-	3,547,793
	<u>19,917,485</u>	<u>-</u>	<u>19,917,485</u>
<b>Current liabilities</b>			
Trade and other payables	421,849	-	421,849
Borrowings	8,489,988	-	8,489,988
	<u>8,911,837</u>	<u>-</u>	<u>8,911,837</u>
<b>Net current assets</b>	<u>11,005,648</u>	<u>-</u>	<u>11,005,648</u>
	<u>112,658,261</u>	<u>-</u>	<u>112,658,261</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Transition to IFRS (continued)

c) Reconciliation of cash flows

Group	For the year ended 31 December 2018		
	IFRS for SME/FRS 102 USD	Effect of transition to IFRS USD	IFRS USD
<b>Operating activities</b>			
Loss before tax	(13,868,150)	(1,847,924)	(15,716,074)
<b>Adjustments for:</b>			
Depreciation on property, plant and equipment	634,111	-	634,111
Amortisation of intangible assets	312,787	-	312,787
Depreciation on right-of-use of assets	-	275,956	275,956
Impairment of bank balances	-	49,768	49,768
Loss on disposal of property, plant and equipment	157,040	-	157,040
Foreign exchange gain	(87,122)	-	(87,122)
Interest expense	7,782,607	-	7,782,607
Changes in working capital:			
- inventories	(2,633,686)	-	(2,633,686)
- trade and other receivables	(17,609,782)	1,827,756	(15,782,026)
- trade and other payables	650,621	(111,364)	539,257
Interest paid	(7,782,607)	-	(7,782,607)
Net cash (used in) operating activities	(32,444,181)	194,192	(32,249,989)
<b>Investing activities</b>			
Additions to property, plant and equipment	(164,977)	-	(164,977)
Cash paid for leases	-	(156,713)	(156,713)
Additions to intangible assets	(683,253)	-	(683,253)
Net cash (used in) investing activities	(848,230)	(156,713)	(1,004,943)
<b>Financing activities</b>			
Proceeds from issue of preferred equity	23,263,807	-	23,263,807
Net proceeds from borrowings	5,403,152	-	5,403,152
Net cash from financing activities	28,666,959	-	28,666,959
<b>(Decrease) in cash and cash equivalents</b>	<b>(4,625,452)</b>	<b>37,479</b>	<b>(4,587,973)</b>
<b>Movement in cash and cash equivalents</b>			
At start of year	18,157,538	-	18,157,538
Effect of translation reserve movements	(263,654)	-	(263,654)
(Decrease) in cash and cash equivalents	(4,625,452)	37,479	(4,587,973)
At end of year	13,268,432	37,479	13,305,911
<b>Split as:</b>			
Cash at bank and in hand	8,355,535	37,479	8,393,014
Restricted cash balances	4,912,897	-	4,912,897
	13,268,432	37,479	13,305,911

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**20. Transition to IFRS (continued)**

**c) Reconciliation of cash flows**

Company	For the year ended 31 December 2018		
	IFRS for SME/FRS 102 USD	Effect of transition to IFRS USD	IFRS USD
<b>Cash (used in) operating activities</b>			
(Loss) before tax	(1,509,782)	-	(1,509,782)
<b>Adjustments for:</b>			
Net foreign exchange loss	2,425	-	2,425
Interest expense	1,399,294	-	1,399,294
Changes in working capital:			
- trade and other receivables	(16,369,692)	-	(16,369,692)
- trade and other payables	421,849	-	421,849
Interest paid	(1,399,294)	-	(1,399,294)
Net cash (used in) operating activities	(17,455,200)	-	(17,455,200)
<b>Investing activities</b>			
Share based payments reserve	205,839	-	205,839
Investment in subsidiary	(101,652,613)	-	(101,652,613)
Net cash (used in) investing activities	(101,446,774)	-	(101,446,774)
<b>Financing activities</b>			
Proceeds from issue of ordinary shares			
-	95,252,216	-	95,252,216
Net proceeds from borrowings	27,199,976	-	27,199,976
Net cash from financing activities	122,452,192	-	122,452,192
<b>Increase in cash and cash equivalents</b>	<b>3,550,218</b>	<b>-</b>	<b>3,550,218</b>
<b>Movement in cash and cash equivalents</b>			
At start of year	-	-	-
Increase	3,550,218	-	3,550,218
Effect of exchange rate changes	(2,425)	-	(2,425)
At end of year	3,547,793	-	3,547,793

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**21. Notes to the reconciliations**

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

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

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

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

As per the provisions of IFRS 1, the group elected to restate comparative figures. Therefore the adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in opening retained earnings.

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

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

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the group. Further detail of the specific IFRS 9 accounting policies applied in the current period are described in more detail in significant accounting policies and note 20.

**(i) Classification and measurement of financial instruments**

The measurement category and the carrying amount of financial assets and liabilities in accordance with IFRS for SME's/FRS 102 and IFRS 9 at 1 January 2019 are compared as follows:

	IFRS for SME's		Measurement category	IFRS 9
	Measurement category	Carrying amount USD		Carrying amount USD
<b>Financial assets</b>				
Cash and cash equivalents	Amortised cost	18,157,538	Amortised cost	18,102,865
Trade and other receivables	Amortised cost	36,708,848	Amortised cost	32,658,982
		<u>54,866,386</u>		<u>50,761,847</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**21. Notes to the reconciliations (continued)**

**i) International Financial Reporting Standards (IFRS 9): Financial Instruments (continued)**

**(ii) Reconciliation of statement of financial position balances from IFRS for SME/FRS102 to IFRS**

The group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. For more detailed information regarding the new classification requirements of IFRS 9, refer to significant accounting policies.

The group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. For more detailed information regarding the new classification requirements of IFRS 9, refer to significant accounting policies.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IFRS for SME's/FRS 102 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IFRS for SME/FRS 102 Carrying amount		IFRS 9 Carrying amount
	01/01/2018 USD	Re- measurement USD	01/01/2018 USD
<b>Amortised cost:</b>			
<b>Cash and cash equivalents</b>			
Balance under IFRS for SME's	18,157,538	-	18,157,538
Re-measurement: ECL allowance	-	(54,673)	(54,673)
	<u>18,157,538</u>	<u>(54,673)</u>	<u>18,102,865</u>
<b>Trade and other receivables</b>			
Balance under IFRS for SME's	36,708,848	-	36,708,848
Remeasurement: ECL allowance	-	(6,755,078)	(6,755,078)
	<u>36,708,848</u>	<u>(6,755,078)</u>	<u>29,953,770</u>
Balance under IFRS 9 - carrying amount	<u>54,866,386</u>	<u>(6,809,750)</u>	<u>48,056,636</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**21. Notes to the reconciliations (continued)**

**ii) IFRS 15: Revenue from contracts with customers**

Under IFRS 15, revenue from sale of goods is recognised when the customer obtains control of the goods. Revenue from sales of services is recognised over time provided the consumption of the service by the customer is simultaneous with the performance of the service by the group. The application of the standard has been retrospectively adopted, as from 1 January 2018 on transition to full IFRS.

	<b>31 December 2018</b>	
	<b>USD</b>	
Consolidated statement of comprehensive income		
Revenue - decrease		<u>(346,028)</u>
	<b>1 January 2018</b>	<b>31 December 2018</b>
	<b>USD</b>	<b>USD</b>
Consolidated statement of financial position		
Retained earnings - (increase)/decrease	(101,262)	(244,765)
Trade receivables - increase/(decrease)	<u>101,262</u>	<u>244,765</u>
	<u>-</u>	<u>-</u>

**iii) International Financial Reporting Standard 16 (IFRS 16): Leases**

From 1 January 2018, to comply with IFRS 16, Leases, from IFRS for SME's, Leases, the company now recognises lease liabilities relating to leases under which the company is the lessee that had previously been classified as operating leases (other than leases with less than 12 months to run from 1 January 2018 and leases of low value items). Such liabilities have been measured at 1 January 2018 at the present value of the remaining lease payments discounted using the company's incremental borrowing rate as at 1 January 2019. Corresponding right-of-use assets have been recognised, measured as if the company's new accounting policy (see Note 1(r)) had been applied since the commencement of each lease but discounted using the company's incremental borrowing rate as at 1 January 2018. The difference between the lease liabilities and right-of-use assets at 1 January 2018 has been recognised as an adjustment to retained earnings at that date.

As per the transition provisions under IFRS 1, comparative amounts have been restated. The group's accounting policy for leases under which the group was lessee was, up to 31 December 2018, as follows:

- Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

The measurement of assets and liabilities that were recognised as finance leases under the previous accounting policy has continued unchanged, but the assets have been reclassified from Property, plant and equipment to Right-of-use assets (see Notes 18 and 19). Right-of-use assets and lease liabilities in respect of operating leases (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) in force at 1 January 2018 have been recognised in accordance with the transition requirements of IFRS 16, as described above.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**21. Notes to the reconciliations (continued)**

**iii) International Financial Reporting Standard 16 (IFRS 16): Leases**

The resulting adjustment passed at 1 January 2018 as a result of applying IFRS 16, was as follows:

	USD
Lease liabilities	1,120,587
Right-of-use assets	1,039,469
Net adjustment to retained earnings at 1 January 2018	<u>81,118</u>

The impact arising from the change is summarised as follows:

	31 December 2018 USD
Consolidated statement of comprehensive income	
Other operating expenses:	
- Depreciation on right of use assets	(275,956)
- Reclassification of rent and rates	242,158
<b>Adjustment to other operating expenses</b>	<u>(33,798)</u>
Finance costs	
- Interest charged on lease liabilities	(5,845)
<b>Net adjustment to profit or loss before income tax</b>	<u>(39,643)</u>

**22. Related party transactions and balances**

The following transactions were carried out and balances held with related parties:

	Group		Company	
	2019 USD	2018 USD	2019 USD	2018 USD
<b>i) Key management compensation</b>				
Salaries and other short term employment benefits				
- Directors remuneration	1,020,708	847,179	-	-
- Other key management personnel	2,572,558	2,585,113	-	-
	<u>3,593,266</u>	<u>3,432,292</u>	<u>-</u>	<u>-</u>
<b>ii) Outstanding balances</b>				
Shareholders loan (Note 8)	11,000,000	-	11,000,000	-
Receivable from subsidiaries (Note 16)	-	-	11,491,808	16,329,373
Payable to related parties (Note 18)	-	-	-	7,047



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**23. Risk management objectives and policies**

**Financial risk management**

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

The group's overall risk management programme seeks to maximise the returns derived for the level of risk that it is exposed to and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the management under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads.

**(a) Market risk**

**- Foreign exchange risk**

The group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollar and Rwandese Francs. 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 the US Dollar weakened by 10% against each currency, with all other variables held constant. If the US Dollar strengthened against each currency, the effect would have been the opposite.

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
Effect of loss-(decrease)/increase	<u>(2,010,770)</u>	<u>(1,672,401)</u>	<u>(1,607,063)</u>	<u>(539,304)</u>

A 10% sensitivity rate is being used when reporting foreign risk internally to key management personnel and represents managements assessment of the reasonably possible change in foreign exchange rates.

**- Interest rate risk**

The group's exposure to interest rate risk arises from interest bearing financial assets.

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

	<b>Group &amp; Company</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Effect on profit - increase	<u>(102,304)</u>	<u>(95,510)</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**Financial risk management (continued)**

**(b) Credit risk**

A 1% sensitivity rate is being used when reporting interest risk internally to key management personnel and represents managements assessment of the reasonably possible change in interest rates.

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

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

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

In assessing whether the credit risk on a financial asset has increased significantly, the group 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 group 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 180 days past due.

If the group 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 group's 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.

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 following events:

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**Financial risk management (continued)**

**(b) Credit risk (continued)**

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

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

The changes in the loss allowance during the year were as follows:

Basis for measurement of loss allowance	Lifetime expected credit losses		
	Cash and cash equivalents	Trade and other receivables	Total
Group	USD	USD	USD
<b>Year ended 31 December 2019</b>			
At start of year	(5,677)	9,058,716	9,053,040
Changes relating to assets	-	301,421	301,421
At end of year	<u>(5,677)</u>	<u>9,360,137</u>	<u>9,354,461</u>
<b>Year ended 31 December 2018</b>			
At start of year	(55,695)	3,997,036	3,941,341
Changes relating to assets	<u>50,018</u>	<u>5,061,680</u>	<u>5,111,698</u>
At end of year	<u>(5,677)</u>	<u>9,058,716</u>	<u>9,053,040</u>

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Due to the nature of the underlying business, the group's management maintains flexibility in funding by maintaining sufficient cash and cash equivalents.

Notes 8, 9 and 18 disclose the maturity analysis of borrowings, lease liabilities and trade and other payables respectively.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**Financial risk management (continued)**

The table below disclose the undiscounted maturity profile of the group's financial liabilities:

Group	Interest rate %	Between 1 to 3 months USD	Between 4 to 12 months USD	Between 1 to 5 years USD	Total USD
<b>Year ended 31 December 2019</b>					
<i>Non-interest bearing liabilities:</i>					
- Trade and other payables	0%	6,741,722	5,670,086	-	12,411,808
<i>Interest bearing liabilities:</i>					
- Borrowings					
- Bank loans	13.00%	1,482,083	-	52,088,134	53,570,217
- Repayable grants	-	-	-	749,715	749,715
- Lease liabilities					
- Operating lease	13.00%	56,472	-	521,620	578,092
		<u>8,280,277</u>	<u>5,670,086</u>	<u>53,359,468</u>	<u>67,309,831</u>
<b>Year ended 31 December 2018</b>					
<i>Non-interest bearing liabilities:</i>					
- Trade and other payables	0%	4,915,783	3,635,799	-	8,551,583
<i>Interest bearing liabilities:</i>					
- Borrowings					
- Bank loans	13.00%	-	-	27,909,960	27,909,960
- Repayable grants	-	-	-	753,772	753,772
- Lease liabilities					
- Operating lease	13.00%	56,494	49,167	467,414	573,074
		<u>4,972,277</u>	<u>3,684,966</u>	<u>29,131,145</u>	<u>37,788,388</u>
<b>Company</b>					
<b>Year ended 31 December 2019</b>					
<i>Non-interest bearing liabilities:</i>					
- Trade and other payables	0%	<u>944,897</u>	<u>-</u>	<u>-</u>	<u>944,897</u>
<b>Year ended 31 December 2018</b>					
<i>Non-interest bearing liabilities:</i>					
- Trade and other payables	0%	<u>414,802</u>	<u>7,047</u>	<u>-</u>	<u>421,849</u>

**24. Capital management**

The group's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing services commensurate with the level of risk;
- 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;
- to maintain a strong asset base to support the development of business; and
- to maintain an optimal capital structure to reduce the cost of capital.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**24. Capital management (continued)**

The management sets the amount of capital in proportion to risk. The group 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 group may adjust the amount of dividends paid to shareholders or issue new shares.

The gearing ratio as at the end of the year was as follows:

	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Borrowings (Note 8)	82,859,334	52,220,041
Less: cash and cash equivalents (Note 17)	(20,121,366)	(13,218,433)
Net debt	<u>62,737,968</u>	<u>39,001,608</u>
Total equity	<u>19,712,840</u>	<u>27,181,160</u>
Gearing ratio	<u>318%</u>	<u>143%</u>

The gearing ratio has increased primarily due to an increase in the borrowings and a decrease in equity.

**25. Events after the reporting period**

As referred to in Note 10 on deferred tax, subsequent to the period end the corporate tax rate in Kenya was reduced from 30% to 25%. This rate change was substantively enacted on the 25 April 2020 and represents a non-adjusting event. The future impact of this change on the carrying value of deferred tax assets is disclosed in Note 10.

**26. Incorporation**

M-Kopa Holdings Limited is incorporated in the UK as per the requirements of Companies Act, 2006 as a private limited liability company and is domiciled in the United Kingdom.

**27. Presentation currency**

These financial statements are presented in United States Dollars (USD).

**28. Controlling party**

In the opinion of the directors, there is no ultimate controlling party.