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Cytonn Investment Partners Three LLP

Annual Report and Financial Statements
for the year ended December 31, 2018

General Information

Country of incorporation and domicile	Kenya
Date of incorporation	September 26, 2014
Partners	Edwin H. Dande (In trust for Nangoma Limited) Cytonn Investments Management PLC
Registered office	3rd Floor, Liaison House State House Avenue P.O. Box 20695-00200 Nairobi
Principal bankers	Standard Chartered Bank Limited Chiromo Branch P.O. Box 30003-00100 Nairobi Diamond Trust Bank Kenya Limited Lavington Curve Branch P.O. Box 61711-00200 Nairobi
Independent auditor	Grant Thornton Certified Public Accountants 5th Floor, Avocado Towers Muthithi Road, Westlands P.O. Box 46986-00100 Nairobi
Statutory manager	Patricia N. Wanjama
Partnership registration number	LLP/2014/104
Tax reference number	P051533461E

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Partners' Report

The partners have pleasure in submitting their report on the annual report and financial statements of Cytonn Investment Partners Three LLP and the group for the year ended December 31, 2018.

1. Principal activities

The principal activities of the company are developing and selling its owned property. The partnership operates principally in Kenya.

There have been no material changes to the nature of the partnership's business from the prior year.

2. Business review of financial results and activities

The annual report and financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Limited Liability Partnership Act of 2011. The accounting policies have been applied consistently compared to the prior year, except for the adoption of new or revised accounting standards as set out in note 1.

The partnership recorded a net loss after tax for the year ended December 31, 2018 of K Sh (369,557,672). This represented a decrease of 1,130.45% from the net loss after tax of the prior year of K Sh 35,863,756.

Partnership revenue increased by 52.19% from K Sh 151,205,539 in the prior year to K Sh 230,125,372 for the year ended December 31, 2018

Partnership cash flows from operating activities increased by 15.10% from K Sh (268,851,382) in the prior year to K Sh (309,452,013) for the year ended December 31, 2018.

3. Partners

The partners in office at the date of this report are as follows:

Edwin H. Dande (In trust for Nangoma Limited)
Cytonn Investments Management PLC

There have been no changes to the directorate for the year under review.

4. Special resolutions

No special resolutions, the nature of which might be significant to the partners in their appreciation of the state of affairs of the partnership were made by the partnership during the period covered by this report.

5. Events after the reporting period

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

6. Going concern

The partners believe that the partnership has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual report and financial statements have been prepared on a going concern basis. The partners have satisfied themselves that the partnership is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The partners are not aware of any new material changes that may adversely impact the partnership. The partners are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the partnership.

Partners' Report

7. Statement of disclosure to the company's auditors

With respect to each person who is a partner on the day that this report is approved:

- there is, so far as the person is aware, no relevant audit information of which the partnership's auditors are unaware; and
- the person has taken all the steps that he/she ought to have taken as a partner to be aware of any relevant audit information and to establish that the partnership's auditors are aware of that information.

8. Terms of appointment of the auditors

Messrs Grant Thornton as auditors of the partnership will be rotated after a four-year period. The partners will request proposals from other reputable audit firms and will recommend to the members the selected firm for appointment as auditors of the partnership. The partners monitor the effectiveness, objectivity and independence of the auditors. The partners also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

9. Approval of financial statements

The annual report and financial statements set out on pages 8 to 39, which have been prepared on the going concern basis, were approved by the board of directors on June 6, 2019, and were signed on its behalf by:

Partner

Statement of Partners' Responsibilities

The Limited Liability Partnership Act of 2011 requires the partners to prepare annual report and financial statements for each financial year that give a true and fair view of the financial position of the partnership as at the end of the financial year and of its profit or loss for that year. It also requires the partners to ensure that the partnership maintains proper accounting records that are sufficient to show and explain the transactions of the partnership and disclose, with reasonable accuracy, the financial position of the partnership. The partners are also responsible for safeguarding the assets of the partnership, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

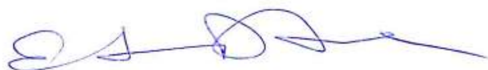
The partners accept responsibility for the preparation and presentation of these annual report and financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Limited Liability Partnership Act of 2011. They also accept responsibility for:

- designing, implementing and maintaining such internal controls as they determine necessary to enable the presentation of annual report and financial statements that are free of material misstatement, whether due to fraud or error;
- selecting suitable accounting policies and applying them consistently; and
- making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the partnership's ability to continue as a going concern, the partners are not aware of any material uncertainties related to events or conditions that may cast doubt upon the partnership's ability to continue as a going concern.

The partners acknowledge that the independent audit of the annual report and financial statements does not relieve them of their responsibilities.

The annual report and financial statements set out on pages 8 to 39, which have been prepared on the going concern basis, were approved by the board of directors on June 6, 2019 and were signed on their behalf by:



Partner

Partner (Representing Cytonn Investments Management PLC)

Grant Thornton

Independent Auditor's Report

To the shareholders of Cytonn Investment Partners Three LLP

Report on the Audit of the Annual Report And Financial Statements

Opinion

We have audited the annual report and financial statements of Cytonn Investment Partners Three LLP set out on pages 8 to 39, which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual report and financial statements, including a summary of significant accounting policies.

In our opinion, the annual report and financial statements present fairly, in all material respects, the financial position of Cytonn Investment Partners Three LLP as at December 31, 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Limited Liability Partnership Act of 2011.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual report and financial statements section of our report. We are independent of the partnership in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of annual report and financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 28 in the annual report and financial statements, which indicates that the partnership had accumulated losses of K Sh (238,352,416) as at December 31, 2018. The partnership also had an excess of current liabilities over current assets of K Sh 104,936,961 as at December 31, 2018. The conditions of the annual report and financial statements indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. However, the financial statements have been prepared on a going concern basis by the directors on the assumption that continued financial support will be made available to the company. Our opinion is not modified in respect of this matter.

Other information

The partners are responsible for the other information. The other information comprises the Partners' Report as required by the Limited Liability Partnership Act of 2011 of Kenya, which we obtained prior to the date of this report. Other information does not include the annual report and financial statements and our auditor's report thereon.

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

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

Responsibilities of the partners for the Annual Report And Financial Statements

The partners are responsible for the preparation and fair presentation of the annual report and financial statements in accordance with International Financial Reporting Standards and the requirements of the Limited Liability Partnership Act of 2011, and for such internal control as the partners determine is necessary to enable the preparation of annual report and financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual report and financial statements, the partners are responsible for assessing the partnership'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 partners either intend to liquidate the partnership or to cease operations, or have no realistic alternative but to do so.

Member of Grant Thornton International Limited

Auditor's responsibilities for the audit of the Annual Report And Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual report and 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 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 annual report and financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

Report on other legal and regulatory requirements

In our opinion the information given in the report of the partners on page 3 - 4 is consistent with the annual report and financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report was D. V. Shah - P/No 1729.

Grant Thornton
Certified Public Accountants
Nairobi
06 June 2019

C/120/1218/178/0619/AUD

Member of Grant Thornton International Limited

Statement of Financial Position as at December 31, 2018

Figures in Shillings	Note(s)	2018	2017
Assets			
Non-Current Assets			
Intangible assets	3	164,880	206,100
Current Assets			
Development properties for sale	4	238,580,335	596,150,829
Trade and other receivables	5	180,565,124	110,207,846
Investments at fair value	6	2,911	-
Other financial assets	7	-	2,911
Prepayments	8	671,255	50,614,370
Cash and cash equivalents	9	62,968	11,642,163
		419,882,593	**768,618,119**
Total Assets		**420,047,473**	**768,824,219**
Equity and Liabilities			
Equity			
Retained income		(238,352,416)	131,205,256
Liabilities			
Non-Current Liabilities			
Land owners contribution	10	133,580,335	175,000,000
Current Liabilities			
Trade and other payables	11	62,091,452	33,510,371
Other financial liabilities	12	462,727,558	429,108,048
Bank overdraft	9	544	544
		524,819,554	**462,618,963**
Total Liabilities		**658,399,889**	**637,618,963**
Total Equity and Liabilities		**420,047,473**	**768,824,219**

The annual report and financial statements and the notes on pages 8 to 39, were approved by the board of directors on the June 6, 2019 and were signed on its behalf by:

Partner

Partner (Representing Cytonn Investments Management PLC)

The accounting policies on pages 12 to 19 and the notes on pages 20 to 39 form an integral part of the annual report and financial statements.

Statement of Profit or Loss and Other Comprehensive Income

Figures in Shillings	Note(s)	2018	2017
Revenue	14	230,125,372	151,205,539
Cost of sales	15	(544,531,957)	(109,904,588)
Gross (loss) profit		**(314,406,585)**	**41,300,951**
Other operating income	16	1,157,364	400,000
Other operating gains (losses)	17	8,352	48,949
Other operating expenses	18	(56,316,803)	(6,347,016)
Operating (loss) profit		**(369,557,672)**	**35,402,884**
Investment income	19	-	460,872
(Loss) profit for the year		**(369,557,672)**	**35,863,756**
Other comprehensive income		-	-
Total comprehensive (loss) income for the year		**(369,557,672)**	**35,863,756**

The accounting policies on pages 12 to 19 and the notes on pages 20 to 39 form an integral part of the annual report and financial statements.

Statement of Changes in Equity

Figures in Shillings	Retained income	Total equity
Balance at January 1, 2017	**95,341,500**	**95,341,500**
Profit for the year	35,863,756	35,863,756
Other comprehensive income	-	-
Total comprehensive income for the year	**35,863,756**	**35,863,756**
Balance at January 1, 2018	**131,205,256**	**131,205,256**
Loss for the year	(369,557,672)	(369,557,672)
Other comprehensive income	-	-
Total comprehensive Loss for the year	**(369,557,672)**	**(369,557,672)**
Balance at December 31, 2018	**(238,352,416)**	**(238,352,416)**

Note(s)

The accounting policies on pages 12 to 19 and the notes on pages 20 to 39 form an integral part of the annual report and financial statements.

Statement of Cash Flows

Figures in Shillings	Notes	2018	2017
Cash flows (used in) operating activities			
Cash (used in) operations	20	(3,779,040)	(269,312,254)
Interest income	19	-	460,872
Net cash (used in) operating activities		**(3,779,040)**	**(268,851,382)**
Cash flows (used in) from financing activities			
Proceeds from other financial liabilities	12	33,619,510	96,680,434
Repayment of shareholders loan	10	(41,419,665)	-
Net cash (used in) from financing activities		**(7,800,155)**	**96,680,434**
Total cash and cash equivalents movement for the year		**(11,579,195)**	**4,488,147**
Cash and cash equivalents at the beginning of the year	9	11,641,619	7,153,472
Total cash and cash equivalents at end of the year	9	**62,424**	**11,641,619**

The accounting policies on pages 12 to 19 and the notes on pages 20 to 39 form an integral part of the annual report and financial statements.

Significant Accounting Policies

Corporate information

Cytonn Investment Partners Three LLP is a limited liability partnership incorporated and domiciled in Kenya.

For reporting purposes, the balance sheet is represented in these annual report and financial statements by the Statement of Financial Position and the profit and loss account by the Statement of Profit or Loss and Other Comprehensive Income.

1. Significant accounting policies

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

1.1 Basis of preparation

The annual report and financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual report and financial statements and the Limited Liability Partnership Act of 2011.

The annual report and financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Shillings, which is the partnership's functional currency and rounded off to the nearest Shilling.

These accounting policies are consistent with the previous period, except for the changes set out in note 29.

1.2 Significant judgements and sources of estimation uncertainty

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

Critical judgements in applying accounting policies

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

Key sources of estimation uncertainty

Fair value estimation

Several assets and liabilities of the partnership are either measured at fair value or disclosure is made of their fair values. Fair value is the price that would be received to sell an asset in an orderly transaction between market participant at the measurement date. The group contracted an external, independent and professional qualified real estate projects valuers who hold recognized professional qualifications and have wide experience in similar real estate projects to assess and advise the fair value of the projects. In determining the fair market value of the projects, the valuer conducted a physical inspection of the property, asking prices for similar parcels of the land in the area, the proposed and approved project plans, current costs, presales as well as the economic conditions prevailing at the time. The group then contracted an independent and qualified consultant to undertake a reasonableness test on the fair market values received. There were no signs of impairment. Significant valuation issues are reported to the audit committee. Observable market data is used as inputs to the extent that it is available. The current use of the investment properties equates to the highest and best use.

The current use of the investment properties equates to the highest and best use.

Significant Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The partnership reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When such indicators exist, management determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash generating unit to which the asset belongs.

1.3 Financial instruments

Financial instruments held by the partnership are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the partnership ,as applicable, are as follows:

Financial assets which are debt instruments:

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or
- Designated at fair value through profit or loss. (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).

Financial liabilities:

- Amortised cost.

Note 21 Financial instruments and risk management presents the financial instruments held by the partnership based on their specific classifications.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the partnership are presented below:

Trade and other receivables

Classification

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 5).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the partnership's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement

Trade and other receivables are recognised when the partnership becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Significant Accounting Policies

1.3 Financial instruments (continued)

Impairment

The partnership recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The partnership measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL), which represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

Measurement and recognition of expected credit losses

The partnership makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The Customer base is widespread and does not show significantly different loss patterns for different customer segments.

Customer base is diverse and does show significantly different loss patterns for different customer segments. loss allowance is calculated on a collective basis for all trade and other receivables in totality.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance.

Write off policy

The partnership writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the partnership recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Credit risk

Details of credit risk are included in the trade and other receivables note (note 5) and the financial instruments and risk management note (note 21).

Derecognition

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

Any gains or losses arising on the derecognition of trade and other receivables is included in profit or loss in the derecognition gains (losses) on financial assets at amortised cost line item.

Borrowings and loans from related parties

Classification

Borrowings (note 12) are classified as financial liabilities subsequently measured at amortised cost.

Significant Accounting Policies

1.3 Financial instruments (continued)

Recognition and measurement

Borrowings and loans from related parties are recognised when the partnership becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Borrowings expose the partnership to liquidity risk and interest rate risk. Refer to note 21 for details of risk exposure and management thereof.

Derecognition

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

Trade and other payables

Classification

Trade and other payables (note 11), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

They are recognised when the partnership becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Trade and other payables expose the partnership to liquidity risk and possibly to interest rate risk. Refer to note 21 for details of risk exposure and management thereof.

Derecognition

Refer to the "derecognition" section of the accounting policy for the policies and processes related to derecognition.

Cash and cash equivalents

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value.

Significant Accounting Policies

1.3 Financial instruments (continued)

Derecognition

Financial assets

The partnership derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the partnership neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the partnership recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the partnership retains substantially all the risks and rewards of ownership of a transferred financial asset, the partnership continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The partnership derecognises financial liabilities when, and only when, the partnership obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Reclassification

Financial assets

The partnership only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated.

The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

Financial liabilities

Financial liabilities are not reclassified.

1.4 Financial instruments: IAS 39 comparatives

Classification

The partnership classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Initial recognition and measurement

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

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

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

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

Significant Accounting Policies

1.4 Financial instruments: IAS 39 comparatives (continued)

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

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

Derecognition

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

Impairment of financial assets

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

For amounts due to the partnership, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity as a reclassification adjustment to other comprehensive income and recognised in profit or loss.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Trade and other receivables

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Significant Accounting Policies

1.4 Financial instruments: IAS 39 comparatives (continued)

Borrowings

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the partnership's accounting policy for borrowing costs.

1.5 Impairment of assets

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

Irrespective of whether there is any indication of impairment, the partnership also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

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

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

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.6 Partner's contribution

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

1.7 Provisions and contingencies

Provisions are recognised when:

- the partnership has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 26.

Significant Accounting Policies

1.8 Revenue from contracts with customers

The partnership recognises revenue from the following major sources:

- Construction of residential properties

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The partnership recognises revenue when it transfers control of a product or service to a customer.

Construction of residential properties

The partnership develops and sells residential properties. Revenue is recognised when control over the property has been transferred to the customer. The properties have generally no alternative use for the group due to contractual restrictions. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognised at a point in time when the legal title has passed to the customer.

The revenue is measured at the transaction price agreed under the contract. In most cases, the consideration is due when legal title has been transferred. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component.

1.9 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Shillingss, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual report and financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Shillingss by applying to the foreign currency amount the exchange rate between the Shillings and the foreign currency at the date of the cash flow.

Notes to the Annual Report And Financial Statements

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the partnership has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Amendments to IAS 28: Annual Improvements to IFRS 2014 - 2016 cycle

An entity such as a venture capital organisation, mutual fund or similar institution may elect to measure investments in associates or joint ventures at fair value through profit or loss in accordance with IFRS 9 rather than by applying the equity method. The amendment to IAS 28 Investments in Associates and Joint Ventures now specifies that the election must be made separately per associate or joint venture and at the time of initial recognition of such investment.

Further, if an entity is not an investment entity, but has interests in an associate or joint venture which is an investment entity, then the entity may retain the fair value measurement of the associate or joint venture. The amendment now provides that such election must be made separately for each investment entity associate or joint venture.

The effective date of the amendment is for years beginning on or after January 1, 2018.

The partnership expects to adopt the amendment for the first time in the 2018 annual report and financial statements.

The impact of the amendment is not material.

Amendments to IFRS 1: Annual Improvements to IFRS 2014 - 2016 cycle

The amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards deleted certain short term exemptions concerning disclosures of financial assets, employee benefits and investment entities from IFRS 1.

The effective date of the amendment is for years beginning on or after January 1, 2018.

The partnership expects to adopt the amendment for the first time in the 2018 annual report and financial statements.

The impact of the amendment is not material.

Amendments to IAS 40: Transfers of Investment Property

The amendment deals specifically with circumstances under which property must be transferred to or from investment property. The amendment now requires that a change in use of property only occurs when the property first meets, or ceases to meet, the definition of investment property and that there is evidence of a change in use. The amendment specifies that a change in management's intentions for use of the property, do not, in isolation, provide evidence of a change in use.

The effective date of the amendment is for years beginning on or after January 1, 2018.

The partnership expects to adopt the amendment for the first time in the 2018 annual report and financial statements.

The impact of the amendment is not material.

Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after January 1, 2018.

The partnership has adopted the amendment for the first time in the 2015 annual report and financial statements.

The impact of the amendment is not material.

Notes to the Annual Report And Financial Statements

2. New Standards and Interpretations (continued)

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after January 1, 2018.

The partnership has adopted the standard for the first time in the 2018 annual report and financial statements.

The impact of the standard is set out in note 29 Changes in Accounting Policy.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Notes to the Annual Report And Financial Statements

2. New Standards and Interpretations (continued)

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after January 1, 2018.

The partnership has adopted the standard for the first time in the 2015 annual report and financial statements.

The impact of the standard is not material.

2.2 Standards and interpretations not yet effective

The partnership has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the partnership's accounting periods beginning on or after January 1, 2019 or later periods:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

If a parent loses control of a subsidiary which does not contain a business, as a result of a transaction with an associate or joint venture, then the gain or loss on the loss of control is recognised in the parents' profit or loss only to the extent of the unrelated investors' interest in the associate or joint venture. The remaining gain or loss is eliminated against the carrying amount of the investment in the associate or joint venture. The same treatment is followed for the measurement to fair value of any remaining investment which is itself an associate or joint venture. If the remaining investment is accounted for in terms of IFRS 9, then the measurement to fair value of that interest is recognised in full in the parents' profit or loss.

The effective date of the amendment is to be determined by the IASB.

The partnership does not envisage the adoption of the amendment until such time as it becomes applicable to the partnership's operations.

It is unlikely that the amendment will have a material impact on the partnership's annual report and financial statements.

Plan Amendment, Curtailment or Settlement - Amendments to IAS 19

The amendment deals with the determination of past service cost and gains or losses on settlement, when a plan is amended, curtailed or settled ("the event"). Specifically, when determining the past service cost or gain or loss on settlement, the net defined benefit liability (asset) shall be remeasured using the current fair value of plan assets and current actuarial assumptions reflecting the benefits offered under the plan and plan assets both before and after the event. The effect of the asset ceiling shall not be considered in this exercise. The effect of the asset ceiling shall be determined after the event.

The amendment also specifies that when determining current service costs and net interest on the defined benefit liability (asset) in a period in which an amendment, curtailment or settlement occurs, to apply inputs at the beginning of the reporting period for the current service cost and interest up to the date of the event, and to apply inputs as at the date of the event to determine current service costs and interest for the remainder of the period.

The effective date of the amendment is for years beginning on or after January 1, 2019.

The partnership does not envisage the adoption of the amendment until such time as it becomes applicable to the partnership's operations.

Notes to the Annual Report And Financial Statements

2. New Standards and Interpretations (continued)

It is unlikely that the amendment will have a material impact on the partnership's annual report and financial statements.

Long-term Interests in Joint Ventures and Associates - Amendments to IAS 28

The amendment now requires that an entity also applies IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

The effective date of the amendment is for years beginning on or after January 1, 2019.

The partnership does not envisage the adoption of the amendment until such time as it becomes applicable to the partnership's operations.

It is unlikely that the amendment will have a material impact on the partnership's annual report and financial statements.

Prepayment Features with Negative Compensation - Amendment to IFRS 9

The amendment to Appendix B of IFRS 9 specifies that for the purpose of applying paragraphs B4.1.11(b) and B4.1.12(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination.

The effective date of the amendment is for years beginning on or after January 1, 2019.

The partnership does not envisage the adoption of the amendment until such time as it becomes applicable to the partnership's operations.

It is unlikely that the amendment will have a material impact on the partnership's annual report and financial statements.

Amendments to IFRS 3 Business Combinations: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment clarifies that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages.

The effective date of the amendment is for years beginning on or after January 1, 2019.

The partnership does not envisage the adoption of the amendment until such time as it becomes applicable to the partnership's operations.

It is unlikely that the amendment will have a material impact on the partnership's annual report and financial statements.

Amendments to IFRS 11 Joint Arrangements: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment clarifies that if a party participates in, but does not have joint control of, a joint operation and subsequently obtains joint control of the joint operation (which constitutes a business as defined in IFRS 3) that, in such cases, previously held interests in the joint operation are not remeasured.

The effective date of the amendment is for years beginning on or after January 1, 2019.

The partnership does not envisage the adoption of the amendment until such time as it becomes applicable to the partnership's operations.

It is unlikely that the amendment will have a material impact on the partnership's annual report and financial statements.

Notes to the Annual Report And Financial Statements

2. New Standards and Interpretations (continued)

Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment specifies that when determining the weighted average borrowing rate for purposes of capitalising borrowing costs, the calculation excludes borrowings which have been made specifically for the purposes of obtaining a qualifying asset, but only until substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

The effective date of the amendment is for years beginning on or after January 1, 2019.

The partnership does not envisage the adoption of the amendment until such time as it becomes applicable to the partnership's operations.

It is unlikely that the amendment will have a material impact on the partnership's annual report and financial statements.

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the partnership are as follows:

Partnership as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Partnership as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.

Notes to the Annual Report And Financial Statements

2. New Standards and Interpretations (continued)

- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after January 1, 2019.

The partnership does not envisage the adoption of the standard until such time as it becomes applicable to the partnership's operations.

The impact of this standard is currently being assessed.

Notes to the Annual Report And Financial Statements

Figures in Shillings	2018	2017

3. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	257,625	(92,745)	164,880	257,625	(51,525)	206,100

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	206,100	(41,220)	164,880

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	-	257,625	(51,525)	206,100

4. Development properties for sale

	2018	2017
Work in progress	544,253,308	596,150,829
	544,253,308	596,150,829
Written down net realisable value	(305,672,973)	-
	238,580,335	**596,150,829**

The above work in progress consists of land transferred from investment properties based on the business case.

	2018	2017
- Transfer from investment property	-	230,479,452
- Capitalised expenditure	783,112,292	475,965
- Transfer to cost of sales	(238,858,984)	(109,904,588)
- Written down net realisable value	(305,672,973)	-
	238,580,335	**121,050,829**

5. Trade and other receivables

	2018	2017
Financial instruments:		
Trade receivables	82,814,044	108,913,998
Trade receivables - related parties (Note 13)	97,650,000	-
Trade receivables at amortised cost	180,464,044	108,913,998
Other receivables	101,080	1,293,848
Total trade and other receivables	**180,565,124**	**110,207,846**

Split between non-current and current portions

	2018	2017
Current assets	180,565,124	110,207,846

Notes to the Annual Report And Financial Statements

Figures in Shillings	2018	2017

5. Trade and other receivables (continued)

Categorisation of trade and other receivables

Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:

	2018	2017
At amortised cost	180,565,124	110,207,846

Exposure to credit risk

Trade receivables inherently expose the partnership to credit risk, being the risk that the partnership will incur financial loss if customers fail to make payments as they fall due.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period.

The estimation techniques explained have been applied for the first time in the current financial period, as a result of the adoption of IFRS 9. Trade receivables were previously impaired only when there was objective evidence that the asset was impaired. The impairment was calculated as the difference between the carrying amount and the present value of the expected future cash flows.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

Exposure to currency risk

Refer to note 21 for details of currency risk management for trade receivables.

6. Investments at fair value

	2018	2017
Debt investments at fair value through profit or loss	2,911	-
Designated at fair value through profit or loss:		
Cytonn High Yield Solutions LLP - Loan (Note 13)	2,911	-
	2,911	-
Split between non-current and current portions		
Current assets	2,911	-

Initial adoption of IFRS 9

IFRS 9 Financial Instruments was adopted in the current year and replaces IAS 39. This note reflects the application of IFRS 9 to the specified instruments. Prior year figures have not been restated. Refer to the "other financial assets" note for disclosure of the comparative figures in accordance with IAS 39.

7. Other financial assets - Comparative information as per IAS 39

	2018	2017
Held to maturity		
Cytonn High Yield Solutions LLP - Loan (Note 13)	-	2,911
Current assets		
Held to maturity	-	2,911

The partnership has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Notes to the Annual Report And Financial Statements

Figures in Shillings	2018	2017

7. Commitments (continued)

There were no gains or losses realised on the disposal of held to maturity financial assets in 2018 and 2017, as all the financial assets were disposed of at their redemption date.

8. Prepayments

	2018	2017
Prepayments	671,255	50,614,370

The above figures relates to prepayments to residual equity and projects.

In the opinion of the partners, the carrying amount of prepayments approximate their fair value.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018	2017
Bank balances	62,968	11,642,163
Bank overdraft	(544)	(544)
	62,424	**11,641,619**
Current assets	62,968	11,642,163
Current liabilities	(544)	(544)
	62,424	**11,641,619**

Exposure to currency risk

Refer to note 21 Financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.

10. Land owners contribution

	2018	2017
Land owners contribution	133,580,335	175,000,000

The land owners have been paid their share on villa no. 2 which they were co-owning with the managing partner - Cytonn Investments Management PLC.

Split between non-current and current portions

	2018	2017
Non-current liabilities	133,580,335	175,000,000

Refer to note 22 Changes in liabilities arising from financing activities for details of the movement in loans from shareholders during the reporting period.

11. Trade and other payables

	2018	2017
Financial instruments:		
Trade payables	11,836,131	5,709,316
Trade payables - related parties (Note 13)	10,873,161	4,963,876
Withholding tax payable	34,552,974	16,821,310
Accrued expenses	4,829,186	6,015,869
	62,091,452	**33,510,371**

Exposure to currency risk

Notes to the Annual Report And Financial Statements

Figures in Shillings	2018	2017

11. Trade and other payables (continued)

Refer to note 21 Financial instruments and financial risk management for details of currency risk management for trade payables.

Exposure to liquidity risk

Refer to note 21 Financial instruments and financial risk management for details of liquidity risk exposure and management.

Exposure to interest rate risk

Refer to note 21 Financial instruments and financial risk management for details of interest rate risk management for trade and other payables.

Fair value of trade and other payables

The fair value of trade and other payables approximates their carrying amounts.

12. Other financial liabilities

	2018	2017
Cytonn High Yield Solutions LLP - Loan (Note 13)	462,727,558	429,108,048

Cytonn High Yield Solutions LLP has rolling one year investments in special purpose vehicles, with returns to Cytonn High Yield Solutions LLP of 21.0% per annum.

In the opinion of the partners, the carrying amount of other financial liabilities approximate their fair value.

13. Related parties

Relationships

Related party balances

	2018	2017
Investments in related parties		
Cytonn High Yield Solutions LLP	2,911	2,911
Other financial liabilities		
Cytonn High Yield Solutions LLP	462,727,558	429,108,048
Amount due to related parties		
Cytonn Investments Management PLC	4,362,557	303,574
Cytonn Investment Partners Two LLP	3,301,727	4,583,609
Cytonn Integrated Project LLP	455,291	5,222
Ololua Estates	71,472	71,472
Cytonn Investment Partners Eleven LLP	896,604	-
Cytonn Properties LLP	1,425,510	-
Amara Ridge Management Company	360,000	-
	10,873,161	**4,963,877**
Amount due from related parties		
Manabo Holdings Limited	97,650,000	-

Notes to the Annual Report And Financial Statements

Figures in Shillings	2018	2017

13. Related parties (continued)

Related party transactions

	2018	2017
Interest to received from related parties		
Cytonn High Yield Solutions LLP	-	460,872
Compensation to partners and other key management		
Short-term employee benefits	-	-

Cytonn Investment Partners Three LLP is related to the above entities and partnerships by virtue of common control.

14. Revenue

	2018	2017
Revenue from contracts with customers		
Sale of houses	230,125,372	151,205,539

Disaggregation of revenue from contracts with customers

The partnership disaggregates revenue from customers as follows:

	2018	2017
Sale of goods		
Sale of houses	230,125,372	151,205,539
Timing of revenue recognition		
Over time		
Sale of houses	(230,125,372)	(151,205,539)

Transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the reporting date

The transaction price which has been allocated to performance obligations which are unsatisfied or partially unsatisfied at the reporting date are presented below. All unsatisfied performance obligations are expected to be completed within one year from reporting date:

15. Cost of sales

	2018	2017
Development costs	238,858,984	109,904,588
Written down net realisable value	305,672,973	-

16. Other operating income

	2018	2017
Gain on forfeited capital	350,000	400,000
Other income	807,364	-
	1,157,364	**400,000**

17. Other operating gains (losses)

	2018	2017
Foreign exchange gains (losses)		
Net foreign exchange gains	8,352	48,949

Notes to the Annual Report And Financial Statements

Figures in Shillings	2018	2017

18. Other operating expenses

	2018	2017
The following items are included within operating expenses:		
Advertising and promotions	978,464	4,066,843
Auditors remuneration	765,600	696,000
Bank charges	23,059	58,286
Legal and professional fees	165,880	150,800
Office expenses	198,847	99,941
Printing and stationery	12,396	30,000
Security	166,562	-
Telephone charges	3,000	3,000
Municipal expenses	248,212	-
Disbursements	-	1,140,621
Service charge	720,000	-
Repairs and maintenance	8,915	-
Residual equity expensed	50,000,000	-
Travelling and accomodation	8,091	-
Sales commissions	2,976,557	-
Amortisation charge	41,220	51,525
Land rates and rents	-	50,000
	56,316,803	**6,347,016**

19. Investment income

	2018	2017
Interest revenue		
Investments in financial assets:		
Interest income (Note 13)	-	460,872

Investment income on financial instruments which are available for sale or held to maturity are only presented for comparative purposes for financial instruments held in the prior reporting period but which were disposed of prior to the beginning current reporting period, which is the date of adoption of IFRS 9 Financial Instruments. Investment income on all other financial assets has been reclassified in compliance with IFRS 9.

20. Cash (used in) operations

	2018	2017
Profit (loss) before taxation	(369,557,672)	35,863,756
Adjustments for:		
Depreciation and amortisation	41,220	51,525
Interest income	-	(460,872)
Changes in working capital:		
Development properties for sale	357,570,494	(195,571,720)
Trade and other receivables	(70,357,278)	(20,647,927)
Prepayments	49,943,115	(394,406)
Trade and other payables	28,581,081	(88,152,610)
	(3,779,040)	**(269,312,254)**

Notes to the Annual Report And Financial Statements

21. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2018

	Note(s)	Fair value through profit or loss - Designated	Amortised cost	Total	Fair value
Investments at fair value	6	2,911	-	2,911	2,911
Trade and other receivables	5	-	180,565,124	180,565,124	180,565,124
Cash and cash equivalents	9	-	62,968	62,968	62,968
		2,911	**180,628,092**	**180,631,003**	**180,631,003**

2017

	Note(s)	Amortised cost	Total	Fair value
Trade and other receivables	5	110,207,846	110,207,846	110,207,846
Cash and cash equivalents	9	11,642,163	11,642,163	11,642,163
		121,850,009	**121,850,009**	**121,850,009**

Categories of financial liabilities

2018

	Note(s)	Amortised cost	Total	Fair value
Trade and other payables	11	62,091,452	62,091,452	62,091,452
Landowners contribution	10	133,580,335	133,580,335	133,580,335
		195,671,787	**195,671,787**	**195,671,787**

2017

	Note(s)	Amortised cost	Total	Fair value
Trade and other payables	11	33,510,371	33,510,371	33,510,371
Landowners contribution	10	175,000,000	175,000,000	175,000,000
		208,510,371	**208,510,371**	**208,510,371**

Pre tax gains and losses on financial instruments

Gains and losses on financial assets

2017

	Note(s)	Amortised cost	Total
Recognised in profit or loss:			
Interest income	19	460,872	460,872

Notes to the Annual Report And Financial Statements

21. Financial instruments and risk management (continued)

Capital risk management

The partnership's objective when managing capital (which includes share capital, borrowings, working capital and cash and cash equivalents) is to maintain a flexible capital structure that reduces the cost of capital to an acceptable level of risk and to safeguard the partnership's ability to continue as a going concern while taking advantage of strategic opportunities in order to maximise stakeholder returns sustainably.

The partnership manages capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain the capital structure, the partnership may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, repurchase shares currently issued, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or sell assets to reduce debt.

Financial risk management

Overview

The partnership is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk and interest rate risk).

The board of directors has overall responsibility for the establishment and oversight of the partnership's risk management framework. The board has established the risk committee, which is responsible for developing and monitoring the partnership's risk management policies. The committee reports quarterly to the board of directors on its activities.

The partnership's risk management policies are established to identify and analyse the risks faced by the partnership, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the partnership's activities.

Credit risk

Credit risk is the risk of financial loss to the partnership if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The partnership is exposed to credit risk on trade and other receivables, contract receivables, lease receivables, cash and cash equivalents, loan commitments and financial guarantees.

Credit risk exposure arising on cash and cash equivalents is managed by the group through dealing with well-established financial institutions with high credit ratings.

The maximum exposure to credit risk is presented in the table below:

		2018			2017		
		Gross carrying amount	Credit loss allowance	Amortised cost / fair value	Gross carrying amount	Credit loss allowance	Amortised cost / fair value
Investments at fair value through profit or loss	6	2,911	-	2,911	-	-	-
Trade and other receivables	5	180,565,124	-	180,565,124	110,207,846	-	110,207,846
Cash and cash equivalents	9	62,968	-	62,968	11,642,163	-	11,642,163
		180,631,003	**-**	**180,631,003**	**121,850,009**	**-**	**121,850,009**

Refer to the notes specific to the exposures in the table above, for additional information concerning credit risk.

Liquidity risk

Notes to the Annual Report And Financial Statements

21. Financial instruments and risk management (continued)

The partnership is exposed to liquidity risk, which is the risk that the partnership will encounter difficulties in meeting its obligations as they become due.

The partnership manages its liquidity risk by effectively managing its working capital, capital expenditure and cash flows. The financing requirements are met through a mixture of cash generated from operations and long and short term borrowings. Committed borrowing facilities are available for meeting liquidity requirements and deposits are held at central banking institutions.

There have been no significant changes in the liquidity risk management policies and processes since the prior reporting period.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

2018

		Less than 1 year	2 to 5 years	Total	Carrying amount
Non-current liabilities					
Loans from shareholders	10	-	133,580,335	133,580,335	133,580,335
Current liabilities					
Trade and other payables		62,091,452	-	62,091,452	62,091,452
Bank overdraft	9	544	-	544	544
		62,091,996	**133,580,335**	**195,672,331**	**195,672,331**

2017

		Less than 1 year	2 to 5 years	Total	Carrying amount
Non-current liabilities					
Loans from shareholders	10	-	175,000,000	175,000,000	175,000,000
Current liabilities					
Trade and other payables	11	33,510,371	-	33,510,371	33,510,371
Bank overdraft	9	544	-	544	544
		33,510,915	**175,000,000**	**208,510,915**	**208,510,915**

Foreign currency risk

The partnership is exposed to foreign currency risk as a result of certain transactions and borrowings which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising foreign forward exchange contracts where necessary. The foreign currencies in which the partnership deals primarily are US Dollars, Euros and Yen.

The partnership has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the partnership's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

Notes to the Annual Report And Financial Statements

21. Financial instruments and risk management (continued)

There have been no significant changes in the foreign currency risk management policies and processes since the prior reporting period.

Exposure in Shillings

The net carrying amounts of the various exposures, are denominated in Shillings.
US Dollar exposure:

		2018	2017
Current assets:			
Cash and cash equivalents	9	42,885	43,474
Euro exposure:			
Current assets:			
Cash and cash equivalents	9	514	544
Net exposure to foreign currency in Shillings		**43,399**	**44,018**

Exposure in foreign currency amounts

The net carrying amounts, in foreign currency of the above exposure was as follows:
US Dollar exposure:

Current assets:			
Cash and cash equivalents	9	421	421
Euro exposure:			
Current assets:			
Cash and cash equivalents	9	4	4

Exchange rates

Shillings per unit of foreign currency:		
US Dollar	101.850	103.250
Euro	116.450	123.300

Foreign currency sensitivity analysis

The following information presents the sensitivity of the partnership to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts and adjusts their translation at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

Partnership

At December 31, 2018, if the exchange rate had been 10% (2017: 10.000%) higher or lower during the period, with all other variables held constant, pre-tax profit or loss for the year would have been K Sh 3,038 (2017: K Sh 9,244) higher or lower.

Interest rate risk

Fluctuations in interest rates impact on the value of investments and financing activities, giving rise to interest rate risk.

The partnership policy with regards to financial assets, is to invest cash at floating rates of interest and to maintain cash reserves in short-term investments in order to maintain liquidity, while also achieving a satisfactory return for shareholders.

Notes to the Annual Report And Financial Statements

21. Financial instruments and risk management (continued)

There have been no significant changes in the interest rate risk management policies and processes since the prior reporting period.

22. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities - 2018

	Opening balance	Other non-cash movements	Total non-cash movements	Cash flows	Closing balance
Other financial liabilities	429,108,048	114,066,197	114,066,197	(80,446,687)	462,727,558
Landowners contribution	175,000,000	-	-	(41,419,665)	133,580,335
	604,108,048	**114,066,197**	**114,066,197**	**(121,866,352)**	**596,307,893**
Total liabilities from financing activities	**604,108,048**	**114,066,197**	**114,066,197**	**(121,866,352)**	**596,307,893**

Reconciliation of liabilities arising from financing activities - 2017

	Opening balance	Cash flows	Closing balance
Other financial liabilities	322,427,614	106,680,434	429,108,048
Landowners contribution	175,000,000	-	175,000,000
	497,427,614	**106,680,434**	**604,108,048**
Total liabilities from financing activities	**497,427,614**	**106,680,434**	**604,108,048**

23. Fair value

The partners consider that there is no material difference between the fair value and carrying value of the partnerships' financial assets and liabilities where fair value details have not been presented.

24. Comparative figures

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

25. Commitments

There were no commitments during the year ended December 31, 2018.

26. Contingencies

There were no contingencies during the year ended December 31, 2018.

27. Events after the reporting period

The partners are not aware of any material event which occurred after the reporting date and up to the date of the Partners' Report.

28. Material uncertainty related to going concern

We draw attention to the annual report and financial statements, which indicates that the partnership had accumulated losses of K Sh (238,352,416) as at December 31, 2018. The partnership also had an excess of current liabilities over current assets of K Sh 104,936,961 as at December 31, 2018.

Notes to the Annual Report And Financial Statements

28. Material uncertainty related to going concern (continued)

The conditions of the annual report and financial statements indicate that the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. However, the annual report and financial statements have been prepared on a going concern basis by the directors on the assumption that continued financial support will be made available to the company.

29. Changes in accounting policy

The annual report and financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Application of IFRS 9 Financial Instruments

In the current year, the partnership has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs. IFRS 9 replaces IAS 39 Financial Instruments and introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the partnership's financial statements are described below.

The partnership has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the partnership has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is January 1, 2018. Accordingly, the partnership has applied the requirements of IFRS 9 to instruments that have not been derecognised as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. Comparatives in relation to instruments that have not been derecognised as at January 1, 2018 have not been restated. Instead, cumulative adjustments to retained earnings have been recognised in retained earnings as at January 1, 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The measurement requirements are summarised below:

Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.

Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income.

All other debt investments and equity investments are subsequently measured at fair value through profit or loss, unless specifically designated otherwise.

The partnership may, on initial recognition, irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies in other comprehensive income.

The partnership may irrevocably designate a debt investment that meets the amortised cost or fair value through other comprehensive income criteria as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Notes to the Annual Report And Financial Statements

29. Changes in accounting policy (continued)

When a debt investment measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at fair value through other comprehensive income, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to new impairment provisions using an expected loss model. This contrasts the incurred loss model of IAS 39.

The partners reviewed and assessed the partnership's existing financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the partnership's financial assets as regards to their classification and measurement:

Debt instruments

Debt instruments classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the partnership to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the partnership to recognise a loss allowance for expected credit losses on debt investments subsequently measured at amortised cost or at fair value through other comprehensive income, lease receivables, contract assets and loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply. In particular, IFRS 9 requires the partnership to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the partnership is required to measure the loss allowance for that financial instrument at an amount equal to 12 months expected credit losses. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables in certain circumstances.

As at January 1, 2018, the partners reviewed and assessed the partnership's existing financial assets, amounts due from customers and financial guarantee contracts for impairment using reasonable and supportable information that was available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at January 1, 2017 and January 1, 2018.

The additional loss allowance is charged against the respective asset or provision for financial guarantee, except for the investments at fair value through other comprehensive income, the loss allowance for which is recognised against the reserve in equity. The application of the IFRS 9 impairment requirements has resulted in additional loss allowance of K Sh - to be recognised in the current year (2017: K Sh -).

Classification and measurement of financial liabilities

One major change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Notes to the Annual Report And Financial Statements

29. Changes in accounting policy (continued)

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the partnership's financial liabilities.

Application of IFRS 15 Revenue from contracts with customers

In the current year, the partnership has applied IFRS 15 Revenue from Contracts with Customers (as revised in April 2016) and the related consequential amendments to other IFRSs. IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the partnership financial statements are described below. Refer to the revenue accounting policy for additional details.

The partnership has applied IFRS 15 with an initial date of application of January 1, 2018 in accordance with the cumulative effect method, by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at January 1, 2018. The comparative information has therefore not been restated.