

**WATU CREDIT UGANDA LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2021**

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**COMPANY INFORMATION**

**BOARD OF DIRECTORS** : Sanjiv Prem Jethanand Gidoomal - Chairperson  
: Agris Varpins  
: Andris Kaneps  
: Vijay Vashdev Gidoomal

**REGISTERED OFFICE** : Plot 1 Kololo Hill Drive  
: Block B, 2nd Floor, Suite B  
: P.O.Box 16225  
: Kampala, Uganda

**INDEPENDENT AUDITOR** : PKF Uganda  
: Certified Public Accountants  
: Plot 1B, Kira Road  
: P.O. Box 24544  
: Kampala, Uganda

**COMPANY SECRETARY** : Orima & Co. Advocates  
: Plot 3, Wampewo Close, Kololo  
: P.O.Box 16225  
: Kampala, Uganda

**PRINCIPAL BANKERS** : Stanbic Bank Uganda Limited  
: P .O. Box 7131  
: Kampala, Uganda

: Orient Bank Uganda Limited  
: P .O. Box 3072  
: Kampala, Uganda

: Exim Bank (Uganda) Limited  
: P .O. Box 36206  
: Hanington Road  
: Kampala, Uganda

: I&M Bank Limited  
: P .O. Box 30238-00100  
: Nairobi, GPO  
: Kenya

## REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 30 June 2021, which disclose the state of affairs of Watu Credit Uganda Limited (the Company).

### INCORPORATION

The Company was incorporated on 23 May 2019 and commenced trading on 11 July 2019

### PRINCIPAL ACTIVITIES

The principal activity of the Company is the provision of micro-credit lending services.

<b>RESULTS</b>	<b>2021</b>	<b>2020</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Profit/(loss) before tax	8,428,815	(2,020,727)
Tax(charge)/credit	<u>(2,599,073)</u>	<u>597,691</u>
Profit/(loss) for the year	<u><u>5,829,742</u></u>	<u><u>(1,423,036)</u></u>

### PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on the company's services. The company's strategic focus is to enhance growth of income whilst maintaining profit margins, the success of which remains dependent on overall market conditions and other factors such as the impact of the recent coronavirus pandemic. Whilst at this stage it is too early to predict the full impact of this pandemic on the Company's operations, the directors continue to monitor the situation closely with a view to assessing and mitigating its impact on the company.

### SHARE CAPITAL

The authorised, issued and paid up share capital of the Company is Shs 1,000,000 representing 100,000 ordinary shares of Shs 10.

### DIVIDEND

The directors do not recommend the declaration of a dividend for the year.

### DIRECTORS

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

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

### INDEPENDENT AUDITOR

PKF Uganda was appointed during the year and has indicated willingness to continue in office in accordance with the Ugandan Companies Act, 2012.

### BY ORDER OF THE BOARD

\_\_\_\_\_  
DIRECTOR  
KAMPALA

28 OCTOBER 2021

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## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Ugandan Companies Act, 2012 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company maintains proper accounting records that are sufficient to show and explain the transactions of the Company; and that disclose with reasonable accuracy, the financial position of the Company and that enable them to prepare financial statements of the Company that comply with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Ugandan Companies Act, 2012. The directors are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and in the manner required by the Ugandan Companies Act, 2012. They also accept responsibility for:

- i) designing, implementing and maintaining such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or
- ii) selecting and applying appropriate accounting policies; and
- iii) are in the company's statement of financial position and statement of profit or loss and retained earnings are in agreement with the books of account.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company as at 30 June 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Ugandan Companies Act, 2012.

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

So far as each of the directors is aware, there is no relevant audit information which the auditor is unaware of, and each of the directors has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by the board of directors on 28 OCTOBER 2021 and signed on its behalf by:

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
DIRECTOR

## Report of the independent auditor to the members of Watu Credit Uganda Limited

### Opinion

We have audited the financial statements of Watu Credit Uganda Limited set out on pages 7 to 19, which comprise the statement of financial position as at 30 June 2021, and the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 30 June 2021, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and the Ugandan Companies Act, 2012.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Uganda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

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

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

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

### Responsibilities of directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and the requirements of the Ugandan Companies Act, 2012, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Kalamu House, Plot 1B, Kira Road, Kampala, Uganda, P.O. Box 24544  
T: +256 312 305800, E: pkfkam@ug.pkfea.com, www.pkfea.com

Partners: Charles Oguttu\*, Frederick Kibbedi \*, Alpesh Vadher\*\*, Piyush Shah\*\*, Gurmit Santokh\*\*, Sumesh D'Cruz\*\*, Ketan Shah\*\*\*, Shilpa Cheda\*\*\*  
(\*Ugandan, \*\* Kenyan, \*\*\* British)

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PKF Uganda is licensed and regulated by the Institute of Certified Public Accountants of Uganda. (Firm Number: AF0014)

## **Report of the independent auditor to the members of Watu Credit Uganda Limited (continued)**

### **Responsibilities of directors for the financial statements (continued)**

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

**Report of the independent auditor to the members of Watu Credit Uganda Limited (continued)****Report on other legal and regulatory requirements**

As required by the Ugandan Companies Act, 2012 we report to you, based on our audit, that:

- (i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (ii) in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- (iii) the Company's statement of financial position and statement of profit or loss are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is: CPA Sumesh D'Cruz - P0366

Sumesh J. D'Cruz

PKF Uganda  
Certified Public Accountants  
Kampala

11 November 2021  
REF: SJD/W034/0268/2021





**STATEMENT OF PROFIT OR LOSS**

	Notes	2021 Shs '000	2020 Shs '000
Interest income	3	16,770,803	3,023,025
Interest expense		<u>(4,424,399)</u>	<u>(1,345,579)</u>
<b>Net interest income</b>		12,346,404	1,677,446
Other operating income	4	4,216,232	1,141,142
Administrative expenses		(4,753,461)	(2,792,537)
Other operating expenses		<u>(3,937,838)</u>	<u>(1,522,178)</u>
<b>Operating profit/(loss)</b>	5	7,871,337	(1,496,127)
Finance income /(costs)		<u>557,478</u>	<u>(524,600)</u>
<b>Profit/(loss) before tax</b>		8,428,815	(2,020,727)
Tax(charge)/credit	7	<u>(2,599,073)</u>	<u>597,691</u>
<b>Profit/(loss) for the year</b>		<u><u>5,829,742</u></u>	<u><u>(1,423,036)</u></u>

The notes on pages 11 to 19 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.

**STATEMENT OF FINANCIAL POSITION**

	Notes	As at 30 June	
		2021 Shs`000	2020 Shs`000
<b>EQUITY</b>			
Share capital	8	1,000	1,000
Accumulated profit/(loss)		1,590,364	(7,474,534)
Regulatory reserve	9	2,816,342	6,051,498
<b>Equity/(deficit) attributable to Shareholders</b>		<u>4,407,706</u>	<u>(1,422,036)</u>
<b>Non-current liabilities</b>			
Borrowings	10	44,300,151	17,374,968
		<u>44,300,151</u>	<u>17,374,968</u>
		<u>48,707,857</u>	<u>15,952,932</u>
<b>REPRESENTED BY</b>			
<b>Non-current assets</b>			
Deferred tax	12	338,315	597,691
Property and equipment	11	637,542	336,038
		<u>975,857</u>	<u>933,729</u>
<b>Current assets</b>			
Loans and advances to customers and other receivables	13	58,403,613	17,573,312
Cash and cash equivalents	14	1,029,512	489,694
Tax recoverable		-	613
		<u>59,433,125</u>	<u>18,063,619</u>
<b>Current liabilities</b>			
Trade and other payables	15	5,058,086	1,130,118
Borrowings	10	6,600,526	1,914,298
Tax payable		42,513	-
		<u>11,701,125</u>	<u>3,044,416</u>
<b>Net current assets</b>		<u>47,732,000</u>	<u>15,019,203</u>
		<u>48,707,857</u>	<u>15,952,932</u>

The financial statements on pages 7 to 19 were approved and authorised for issue by the Board of Directors on 28 OCTOBER 2021 and were signed on its behalf by:

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
DIRECTOR

The notes on pages 11 to 19 form an integral part of these financial statements.

Report of the independent auditor - pages 4 - 6.

**STATEMENT OF CHANGES IN EQUITY**

		Share capital Shs '000	Accumulated profit/(loss) Shs '000	Regulatory reserve Shs '000	Total Shs '000
<b>Year ended 30 June 2020</b>					
At start of year		-	-	-	-
Issue of ordinary share capital	8	1,000			1,000
Transfer to regulatory reserve	9		(6,051,498)	6,051,498	-
Loss for the year			(1,423,036)	-	(1,423,036)
At end of year		<u>1,000</u>	<u>(7,474,534)</u>	<u>6,051,498</u>	<u>(1,422,036)</u>
<b>Year ended 30 June 2021</b>					
At start of year		1,000	(7,474,534)	6,051,498	(1,422,036)
Profit for the year			5,829,742		5,829,742
Transfer from regulatory reserve	9		3,235,156	(3,235,156)	-
At end of year		<u>1,000</u>	<u>1,590,364</u>	<u>2,816,342</u>	<u>4,407,706</u>

The notes on pages 11 to 19 form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS**

	Notes	2021 Shs '000	2020 Shs '000
<b>Cash flows (used in) operating activities</b>			
Profit/(loss) before tax		8,428,815	(2,020,727)
<b>Adjustments for:</b>			
Depreciation on property and equipment	11	221,397	110,274
Exchange (gain)/loss		(1,082,891)	280,467
<b>Changes in working capital</b>			
- trade and other receivables		(40,830,300)	(17,573,312)
- trade and other payables		3,927,968	1,130,118
<b>Cash flows (used in) operations</b>		(29,335,011)	(18,073,180)
Tax paid		(2,296,572)	(613)
<b>Net cash flows (used in) operating activities</b>		<u>(31,631,583)</u>	<u>(18,073,793)</u>
<b>Investing activities</b>			
Cash paid for purchase of property and equipment	11	(522,901)	(446,312)
<b>Net cash (used in) investing activities</b>		<u>(522,901)</u>	<u>(446,312)</u>
<b>Financing activities</b>			
Proceeds from borrowings	10	31,611,411	19,289,266
Issue of ordinary share capital	8	-	1,000
<b>Net cash from financing activities</b>		<u>31,611,411</u>	<u>19,290,266</u>
(Decrease)/Increase in cash and cash equivalents		<u>(543,073)</u>	<u>770,161</u>
<b>Movement in cash and cash equivalents</b>			
At start of year		489,694	-
(Decrease)/Increase in cash and cash equivalents		(543,073)	770,161
Effect of exchange rate changes		1,082,891	(280,467)
At end of year	14	<u>1,029,512</u>	<u>489,694</u>

The notes on pages 11 to 19 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.

## NOTES: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### 1. General information

Watu Credit Uganda Limited is incorporated and domiciled in Uganda under the Ugandan Companies Act, 2012 as a Company Limited by Shares. The address of its registered office is Plot 1 Kololo Hill Drive, Block B, 2nd Floor, P.O. Box 16225 Kampala, Uganda. The principal activity of the Company is the provision of micro-credit lending services.

### 2.a) Basis of preparation

The financial statements of Watu Credit Uganda Limited have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and they have been prepared under the historical cost convention. The financial statements are presented in Uganda shillings rounded to the nearest thousand (Shs '000).

The preparation of financial statements in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements, are disclosed in note 2 (b).

These financial statements comply with the requirements of the Ugandan Companies Act, 2012. The statement of profit or loss represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

#### Going concern

The financial performance of the company is set out in the report of directors and in the statement of profit or loss. The financial position of the company is set out in the statement of financial position.

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

### b) Key sources of estimation uncertainty

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

- **Effect of COVID 19** - A highly infectious respiratory disease COVID 19 caused by the new virus called corona Virus broke out in china and was announced by the end of December 2019. The rate of spread of this disease has forced various governments and businesses to take serious actions to contain the disease. These actions may have a serious impact on the financial statements. Whereas its difficult to estimate the financial effect attributed to COVID -19 on the company at this stage,management is aware of the implications of the epidemic and is currently deliberating on how to factor this in their operations.
- **Useful lives of property and equipment** - management reviews the useful lives and residual values of the items of property and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.
- **Impairment of trade receivables** - the company reviews their portfolio of trade receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.

**NOTES : SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**c) Revenue recognition**

***i) Net interest income and expense***

Interest income and expense are recognised in the statement of profit or loss on an accrual basis using the effective interest method. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period), to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and charges paid or received transaction costs, and discounts or premium that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss include:

- Interest on financial assets and liabilities on accrual basis taking into account the effective interest rate basis.
- Interest income and expense on all trading assets and liabilities are considered to be incidental to the company's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

***ii) Commission income***

Commission income relates to loan processing fees, which is charged to cover the associated costs related to loan issuance. The major associated costs are comprehensive insurance and a GPS tracking device

**d) Property and equipment**

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

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

Depreciation on all other assets is calculated on a reducing balance method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	<b>Rates</b>
IT equipment	30%
Motor vehicles	25%
Office equipment	12.5%
Furniture & fittings	12.5%

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

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

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

**NOTES : SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**e) Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Uganda shillings at rates ruling at the transaction dates. Assets and liabilities at the statement of financial position date which are expressed in foreign currencies are translated into Uganda shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

**f) Financial assets**

Trade and other receivables are initially recognised at the transaction price. Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method.

**Financial assets at fair value through profit or loss:** financial assets that are acquired or incurred principally for the purpose of generating a profit from short term investments where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method. Changes in the carrying amount are recognised in profit or loss and other comprehensive income.

**g) Financial liabilities**

Financial liabilities are initially recognised at the transaction price (less transaction costs). Trade bearing payables are obligations on the basis of normal credit terms and do not bear interest. Interest liabilities are subsequently measured at amortised cost using the effective interest method.

**h) Borrowings**

Borrowings are recognised initially at the transaction price (that is, the present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

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

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

**i) Current and deferred income tax**

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

**Offsetting**

An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off the amounts and the entity can demonstrate without undue cost or effort that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.

**NOTES : SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**j) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts.

**k) Employee benefit obligations**

The Company and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The Company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

**l) Impairment of assets**

At each reporting date, property and equipment is reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

**m) Share capital**

Ordinary shares are classified as equity.

**n) Comparatives**

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



NOTES (CONTINUED)

	2021 Shs '000	2020 Shs '000
<b>3. Revenue</b>		
Interest on loans and advances	<u>16,770,803</u>	<u>3,023,025</u>
<b>4. Other operating income</b>		
Commission income	<u>4,216,232</u>	<u>1,141,142</u>
<b>5. The following items have been charged in arriving at the operating profit/(loss):</b>		
Depreciation on property and equipment (Note 11)	221,397	110,274
Director's remuneration	4,267	-
Auditor's remuneration	26,693	18,690
Rent and rates	660,326	384,645
Repairs and maintenance	78,582	37,259
Staff costs(Note 6)	<u>2,593,242</u>	<u>665,832</u>
<b>6. Staff costs</b>		
Gross bonuses	161,814	23,480
Gross salaries and wages	1,777,902	529,258
Health Insurance	119,159	43,401
NSSF, company contribution	194,185	55,274
Provisions for staff leave	231,548	10,128
Work permit fees	103,136	4,291
Staff training	<u>5,498</u>	<u>-</u>
<b>Total staff costs</b>	<u>2,593,242</u>	<u>665,832</u>
<b>7. Tax</b>		
Current tax	2,339,697	-
Deferred tax (Note 12)	<u>259,376</u>	<u>(597,691)</u>
Tax charge/(credit)	<u>2,599,073</u>	<u>(597,691)</u>
The tax on the company's profit/(loss) before tax differs from the theoretical amount that would arise using the basic rate as follows:		
Profit/(loss ) before tax	<u>8,428,815</u>	<u>(2,020,727)</u>
Tax calculated at a tax rate of 30%	2,528,645	(606,218)
Tax effect of:		
-under provision in prior year		-
-expenses not deductible for tax purposes	<u>70,429</u>	<u>8,527</u>
Tax	<u>2,599,073</u>	<u>(597,691)</u>
<b>8. Share capital</b>		
<b>Authorised</b>		
100,000 ordinary shares of Shs 10 each	<u>1,000</u>	<u>1,000</u>
<b>Issued and fully paid</b>		
100,000 ordinary shares of Shs 10 each	<u>1,000</u>	<u>1,000</u>

**NOTES (CONTINUED)**

**9. Regulatory reserve**

The regulatory general credit risk reserve represents amounts by which allowances for impairment of loans and advances determined in accordance with the Ugandan Microfinance Non-Deposit taking Institutions Act, 2018 exceed those determined in accordance with International Financial Reporting Standards. These amounts are appropriated to or from retained earnings in accordance with accounting policy. The reserve is not distributable.

	2021 Shs '000	2020 Shs '000
At start of year	6,051,498	-
Transfer (to)/from retained earnings	<u>(3,235,156)</u>	<u>6,051,498</u>
At end of year	<u>2,816,342</u>	<u>6,051,498</u>
Regulatory credit risk reserve is analysed as follows;		
<b>Provisions as per MFI Act 2018</b>		
Performing	108,736	1,702
Watch	1,823,596	16,756
Substandard	1,885,889	1,653,768
Doubtful	695,126	6,027,537
Loss	<u>365,740</u>	<u>15,976</u>
	<u>4,879,087</u>	<u>7,715,739</u>
<b>Impairment assessment</b>		
Impairment on loans and advances per IFRS 9	<u>2,062,745</u>	<u>1,664,241</u>
<b>Regulatory credit risk reserve at end of year</b>	<u>2,816,342</u>	<u>6,051,498</u>

**10. Borrowings**

The borrowings are made up as follows:

**Non-current**

Borrowings from related parties (Note 16)	43,738,969	17,374,968
Borrowings from Untapped Water Limited Uganda	<u>561,182</u>	<u>-</u>
	<u>44,300,151</u>	<u>17,374,968</u>

**Current**

Borrowings from Exim Bank	682,328	-
Borrowings from related parties (Note 16)	<u>5,918,198</u>	<u>1,914,298</u>
	<u>6,600,526</u>	<u>1,914,298</u>

**Total borrowings**

	<u>50,900,677</u>	<u>19,289,266</u>
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**NOTES (CONTINUED)**

**11. Property and equipment**

<b>Cost</b>	<b>Office equipment Shs '000</b>	<b>Furniture and fittings Shs '000</b>	<b>IT equipment Shs '000</b>	<b>Motor vehicles Shs '000</b>	<b>Total Shs '000</b>
At start of year	62,738	50,825	154,960	177,789	446,312
Additions	90,235	35,357	283,029	114,280	522,901
At end of year	152,973	86,182	437,989	292,069	969,213
<b>Depreciation</b>					
At start of year	8,694	10,645	46,488	44,447	110,274
Charge for the year	19,995	13,863	125,633	61,906	221,397
At end of year	28,689	24,508	172,121	106,353	331,671
<b>Net book value</b>					
<b>As at 30 June 2021</b>	<u>124,284</u>	<u>61,674</u>	<u>265,868</u>	<u>185,716</u>	<u>637,542</u>
<b>As at 30 June 2020</b>	<u>54,044</u>	<u>40,180</u>	<u>108,472</u>	<u>133,342</u>	<u>336,038</u>

**12. Deferred tax**

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

	<b>2021 Shs'000</b>	<b>2020 Shs'000</b>
At start of year	(597,691)	-
Debit/(Credit) to profit or loss (Note 7)	259,376	(597,691)
At end of year	<u>(338,315)</u>	<u>(597,691)</u>

Deferred tax asset in the statement of financial position and deferred tax charge in the statement of profit or loss are attributable to the following items:

	<b>At start of the year Shs'000</b>	<b>Debit to profit or loss Shs'000</b>	<b>At end of year Shs'000</b>
<b>Deferred tax liability</b>			
Property, plant and equipment:			
- historical cost	12,172	(12,172)	-
-unrealised foreign exchange gain	-	324,867	324,867
	<u>12,172</u>	<u>312,695</u>	<u>324,867</u>
<b>Deferred tax asset</b>			
Property, plant and equipment:			
- historical cost	-	28,144	28,144
Provisions for vacation	(3,038)	(69,464)	(72,503)
Provision for impairment	(499,272)	(119,551)	(618,824)
Tax losses carried forward	(107,552)	107,552	-
	<u>(609,863)</u>	<u>(53,319)</u>	<u>(663,182)</u>
<b>Net deferred tax liability</b>	<u>(597,691)</u>	<u>259,376</u>	<u>(338,315)</u>

NOTES (CONTINUED)

	2021 Shs '000	2020 Shs '000
<b>13. Loans and advances to customers and other receivables</b>		
Loans and advances		
Gross Loans and advances	58,134,321	19,093,632
Less: provision for impairment	(2,062,745)	(1,668,503)
Less :write off	(178,239)	-
Net Loans and advances	55,893,337	17,425,129
Other receivables	646,191	148183
Related parties (Note 16(iii))	1,864,085	-
<b>Total loans and advances to customers and other receivables</b>	<b>58,403,613</b>	<b>17,573,312</b>
<b>14. Cash and cash equivalents</b>		
Cash at bank and in hand	1,029,512	489,694
For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the above.		
	<b>2021</b>	<b>2020</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>15. Trade and other payables</b>		
Trade payables	908,840	90,292
Other payables and accruals	455,071	57,881
Deferred income	3,694,175	712,548
Payables to related parties (Note 16(ii))	-	269,397
Total trade and other payables	5,058,086	1,130,118
<b>16. Related party transactions and balances</b>		
<b>Outstanding balances</b>		
<b>i) Borrowings from shareholders (Note 10)</b>		
- <b>Watu Holdings Limited (Mauritius)</b>		
At start of year	17,374,968	-
Advances	26,364,001	17,374,968
At end of year	43,738,969	17,374,968
- <b>Andris Kaneps</b>		
At start of year	1,195,906	-
Advances	87,988	1,195,906
At end of year	1,283,894	1,195,906
<b>Borrowings from related parties (Note 10)</b>		
At start of year	718,392	-
Advances	3,915,912	718,392
At end of year	4,634,304	718,392
Total borrowings from related party and share holders	49,657,167	19,289,266
<b>ii) Payable to related party (Note 15)</b>		
- <b>AK Trading Uganda (SMC) Limited</b>		
At start of year	269,397	-
Advances	(269,397)	269,397
At end of year	-	269,397

**NOTES (CONTINUED)**

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

**iii) Receivable from related party (Note 13)**

	2021	2020
	Shs '000	Shs '000
- AK Trading Uganda (SMC) Limited		
At start of year	-	-
Advances	1,864,085	-
At end of year	<u>1,864,085</u>	<u>-</u>

**TAX COMPUTATION**

	2021 Shs	2020 Shs
Profit/Loss as per financial statements	8,428,815,000	(2,020,727,000)
<b>Add:</b>		
Depreciation on property and equipment	221,397,000	110,274,000
Impairment on loans and advances	432,116,000	1,664,241,000
Provision for staff leave	231,548,000	10,128,000
Staff training to the extent not allowable	1,300,000	-
Business expense to the extent not allowed	11,054,000	-
Office expenses to the extent not allowed	4,046,800	-
Work permit fees	103,135,948	-
Miscellaneous Expense to the extent not allowed	656,000	-
Recover expenses	-	650,000
Low value asset expenses	108,135,765	34,718,740
	<u>1,113,389,513</u>	<u>1,820,011,740</u>
<b>Less:</b>		
Wear and tear	301,817,185	152,885,466
Unrealised forex exchange gain	1,082,891,000	-
Minor capital expenditure	-	4,905,300
	<u>1,384,708,185</u>	<u>157,790,766</u>
<b>Adjusted profit/(loss) for the year</b>	8,157,496,328	(358,506,026)
Adjusted loss B/F	(358,506,026)	-
Adjusted profit	7,798,990,302	-
Tax at 30%	<u>2,339,697,091</u>	<u>-</u>
<b>Less tax paid</b>		
Corporation tax		
Tax credit B/F	612,571	-
Provisional tax	2,296,571,687	-
WHT paid	-	(612,571)
	<u>42,512,833</u>	<u>(612,571)</u>

**WEAR AND TEAR SCHEDULE**

	Class (i) 40% Shs	Class (ii) 35% Shs	Class(iv) 20% Shs	Total Shs
Written down values 1/7/2020	92,976,051	115,562,850	114,701,127	323,240,028
Additions	289,451,642	114,280,000	119,168,659	522,900,302
Low value assets capitalised	-	-	108,135,765	108,135,765
	<u>382,427,693</u>	<u>229,842,850</u>	<u>342,005,551</u>	<u>954,276,095</u>
Wear and Tear allowance	<u>(152,971,077)</u>	<u>(80,444,998)</u>	<u>(68,401,110)</u>	<u>(301,817,185)</u>
Written down values 30/06/2021	<u>229,456,616</u>	<u>149,397,853</u>	<u>273,604,441</u>	<u>652,458,910</u>