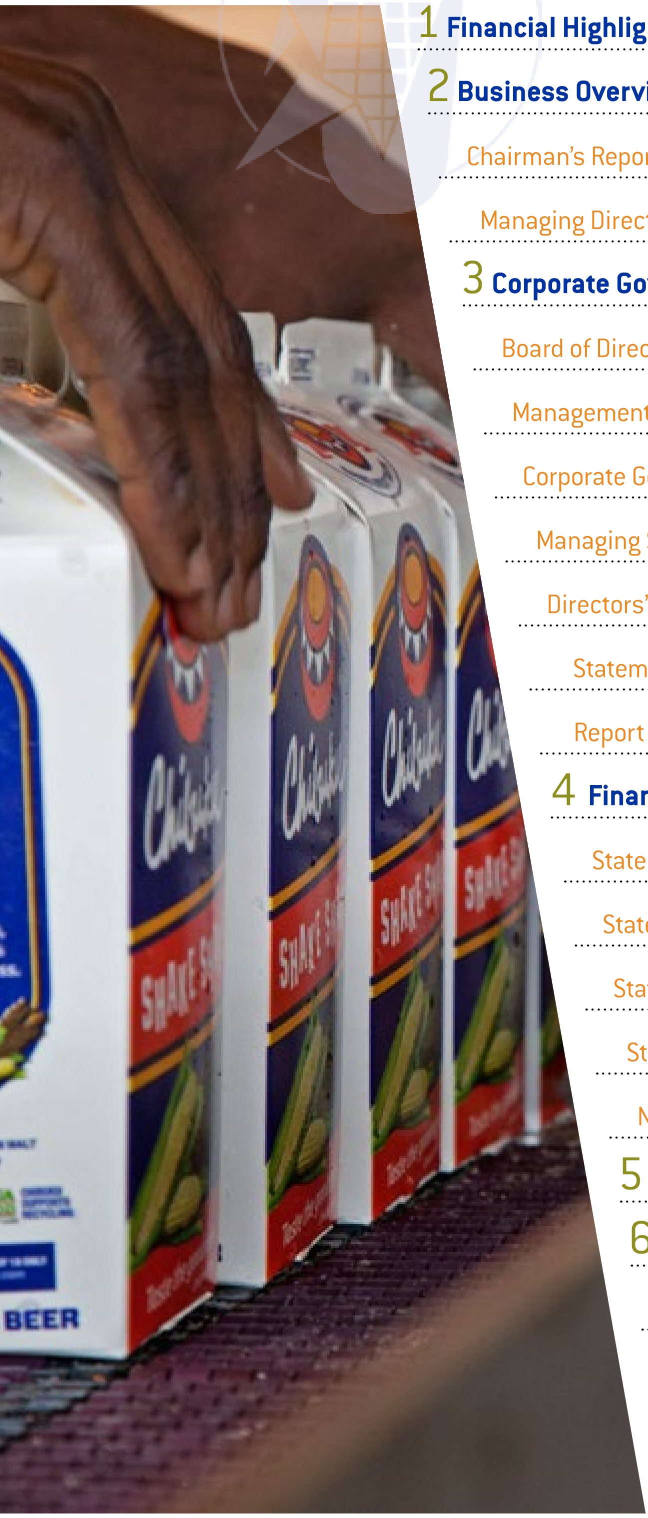
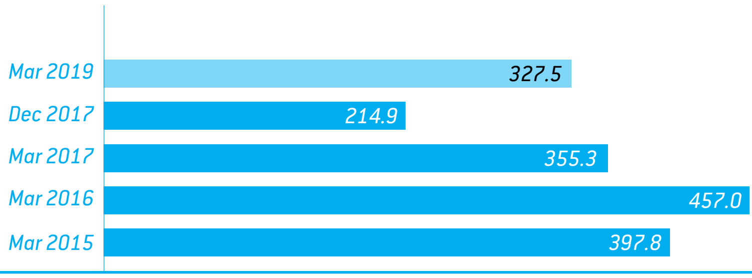
# Contents



# **Financial** Highlights

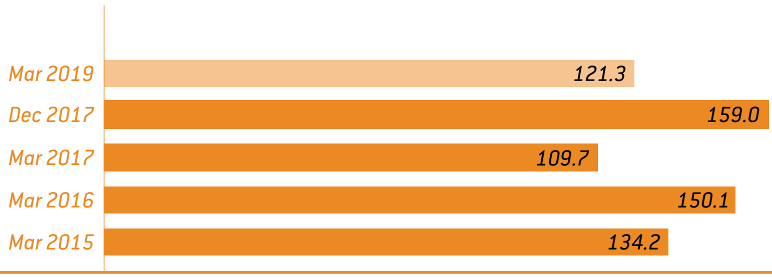
| *(In Kwacha thousands)* | March 2015 | March 2016 | March 2017 | Nine months ended December 2017 | **Fifteen months ended March 2019** |
|---|---|---|---|---|---|
| *Company turnover (Incl. excise duty)* | 431,154 | 491,978 | 377,257 | 242,034 | **367,536** |
| *Company revenue (Excl. excise duty)* | 397,799 | 456,983 | 355,273 | 214,927 | **327,528** |
| *Operating profit / (loss)* | 43,064 | 26,940 | (28,672) | 148 | **(21,895)** |
| *Profit / (loss) before income tax* | 43,708 | 53,797 | (64,577) | (7,935) | **(45,536)** |
| *Profit / (loss) for the year* | 27,684 | 38,196 | (45,851) | 1,038 | **(37,642)** |
| *Total assets* | 325,553 | 457,348 | 374,542 | 326,339 | **302,989** |
| *Current liabilities* | 174,022 | 277,498 | 250,917 | 72,601 | **156,660** |
| *Shareholder's funds* | 134,193 | 150,054 | 109,677 | 158,971 | **121,329** |

**COMPANY REVENUE**



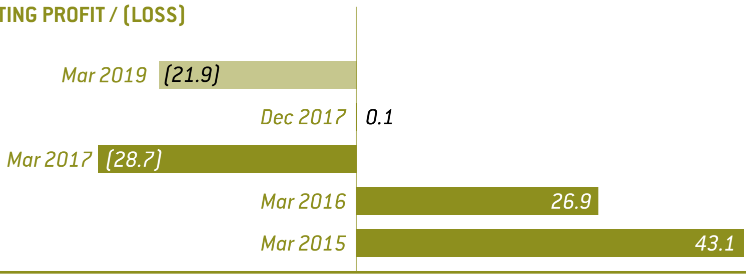

**K327.5 million**

**SHAREHOLDERS' FUNDS**



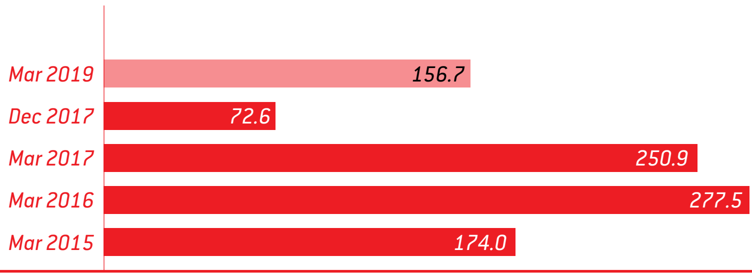

**K121.3 million**

**OPERATING PROFIT / (LOSS)**




**K(21.9) million**

**CURRENT LIABILITIES**




**K156.7 million**


# Business Review 2

# **Chairman's** Report

Richard Mazombwe **Chairman**

**In the fifteen months following change of control, the Company has focused on rebuilding skills to support a stand-alone entity; aligning systems, processes and practices with those of Delta Corporation. This has been in the face of significant headwinds, a period in which margins were eroded due to high increases in the cost of imported packaging materials emanating from the currency depreciation. In addition, the Company faced increased competition from bulk traditional beer producers and unregulated cheap spirits.**

During the period the Company discontinued the 1 Litre PET Chibuku Super Pack and introduced a 1.25 Litre pack which had the impact of lowering costs and improving margins. As a result of this development, it was in a position to pass on some benefits to consumers through lowering the price per litre. Major strides were also made towards the launch of an enhanced malt brewing formula packaged in a new 1.5 Litre returnable bottle to differentiate our beverage offering, whilst addressing affordability in the economy segment of the market.

The production facility at Ndola was re-opened during the period, bringing the total number of brewing facilities to three. This enabled us to guarantee a better service and product quality to our customers and consumers whilst increasing our production capacity for future growth.

The business posted an operating loss of K22m during the period under review. Robust plans have been formulated to ensure that the Company returns to profitability in the short to medium term, including measures to manage the negative impact of the foreign exchange risk.

The Company continues to be a key contributor to the fiscus in various taxes

*"**Our** strategy to offer our consumers choice through innovative and cost-effective packaging will enable us to achieve competitive pricing of our products and stimulate business growth.*

key amongst them being Excise, VAT, PAYE and Corporate Tax. The total contribution to the treasury for the fifteen-month period was K65m.

## Corporate governance

We have remained steadfast in observing a strict compliance culture with regards to sound corporate governance and we have maintained our record of nil significant breaches of corporate governance and anti-bribery codes. In our efforts to enhance integrity and transparency in all our dealings, we have engaged Deloitte and Touche to manage our whistle blowing programme.

## Prospects

Going forward we expect trading to be tough in the face of currency and inflationary pressures on disposable income. We however remain optimistic about the future. The planned implementation of presumptive Excise Tax for traditional beer by the Zambia Revenue Authority (ZRA) will level the playing field, engender a culture of tax and legislative compliance within the industry. These measures and the other plans the company will implement bodes well for the Company.

Our strategy to offer our consumers choice through innovative and cost-effective packaging will enable us to achieve competitive pricing of our products and stimulate business growth.

Richard Mazombwe
*Chairman*


The 1.25L Chibuku Super pack on display in one of our partner supermarket chains

# **Managing Director's** Report

Ronny Palale **Managing Director**

**It was a period of new beginnings for National Breweries PLC following the change of control which saw Delta Corporation become the ultimate majority shareholder in the company. A new team was appointed to manage the business as a stand-alone entity.**

The 2018-19 financial period was characterised by a challenging environment. Managing affordability and competitiveness continued to be a major challenge due to the continued selective and ineffective policing of SI No. 72 of 2012 – The Liquor Licensing (intoxicating Liquor) (Quantities and Packaging) Regulation, 2012. In as much as bulk opaque beer is banned under this legislation, it has continued to be available in the market to the detriment of compliant producers.

As mentioned in the Chairman's report, margins were eroded due to cost increases of imported packaging materials resulting from the currency depreciation and as such the business posted an operating loss of K22m

The period closed with the establishment of a working compliment recruiting key personnel in finance, engineering, brewing, human resources and sales and distribution. We are committed to enhancing the development of our people through our comprehensive training and development plan now fully in place.

We successfully integrated our IT systems to fully align with the Delta systems thereby harmonizing processes.

*"**Competitive** pricing of our products backed by investment to improve production efficiency, quality and an efficient sales and distribution network remain our core strategy.*

Our commitment to zero harm to all our employees remains resolute. We have therefore begun implementation of several initiatives which include:

- *Implementation of NOSA 5 Start system at all our Breweries*
- *Internal compliance audits and;*
- *Emergency response team training and drills*
- *The introduction of a whistle blowing programme*

## Looking ahead

Despite the uncertainty in economic performance going forward, we are encouraged by plans for the Zambia Revenue Authority (ZRA) to introduce Presumptive Excise Tax for traditional beer which will level the playing field and increase contributions to the fiscus.

Our overall objective remains volume growth through continuous portfolio innovation that differentiates us from other industry players. Competitive pricing of our products backed by investment to improve production efficiency, quality and an efficient sales and distribution network remain our core strategy.

*Managing Director*


The 1.5 litre returnable bottle with enhanced malt brewing formulation is an example of our drive towards volume growth through continuous portfolio innovation that differentiates us from our competitors

National Breweries staff participating in one of the clean-up exercises that the Company has embarked on.

MANJA PAMODZI
PICK•DROP•CARE


# Corporate Governance and Sustainable Development 3

# **Board of** Directors

**Richard Mazombwe** *BAcc, FCCA*
A Chartered Accountant with over 35 years experience in the accountancy and consulting professions gained across industries in Zambia, Malawi and Botswana. Since 2010 has focused on leadership development and corporate governance. He is a Non Executive Director in a number of companies. Richard was the Senior Partner of PricewaterhouseCoopers Zambia from 2003 to 2010. A Fellow of the Association of Chartered Certified Accountants he graduated from the University of Zambia in 1981 with a Bachelor of Accountancy degree.

**Ronny Palale** *FCCA; MBA*
Ronny Palale is a Chartered Accountant with wide and varied experience who on leaving the profession joined SABMiller in 2004 as an Executive Assistant to the Managing Director of National Breweries Plc. - Zambia then rising through the ranks as Operations Director in 2008. In 2012 he was appointed General Manager of Heinrich's Beverages Ltd tasked with growing the non-alcoholic dairy beverage interests. Latterly Ronny held the position of Route to Consumer Manager for Zambia Breweries Plc. a subsidiary of AB Inbev. Prior to joining SABMiller, Ronny worked for KPMG in Lusaka. He is a Fellow of the Association of Chartered Certified Accountants UK, Fellow of the Zambia Institute of Chartered Accountants (ZICA) and holds a Master of Business Administration from Edinburgh Business School UK.

**Pearson Gowero** *BSc Econ (Hons); MBL*
Pearson Gowero was appointed as Chief Executive in June 2012. He joined the Group in 1997 as Marketing Director of the then Chibuku Breweries Division, becoming the unit Managing Director in 2001. He has held various senior positions in the beverages business and became an executive director in 2003. Pearson spent 5 years on secondment to the SABMiller Group from 2006 to 2011 where he was the Managing Director of Zambian Breweries Group. Prior to joining Delta, he had worked for some prominent clothing retail chains. Mr. Gowero sits on the board of Seed Company Zimbabwe and the boards of the Company's subsidiary and associate companies, notably as Delta Beverages, National Breweries Plc (Zambia), Afdis Limited and Nampak Zimbabwe.

**Faith Mukutu** *FCCA*
Faith was appointed to the National Breweries Plc Board on 23 July 2018 and is currently the Finance Director of Zambia Sugar Plc. Ms Mukutu has over 15 years' experience in Finance and Audit functions having started her career at PricewaterhouseCoopers. She was appointed as Finance Director of Zambian Breweries Plc, National Breweries Plc and Heinrich's Syndicate Ltd and took up seats on the three boards in November 2015. This was after she returned from Maluti Mountain Brewery a SABMiller Plc subsidiary in Lesotho where she served in the same capacity from 2011. She originally joined Zambian Breweries Plc in June 2005 as a Management Accountant and was promoted to the position of Finance Director for the Malawi Operation – Chibuku Products Ltd in 2008. She comes with rich industry knowledge and experience. She is a Fellow of the Association of Chartered Certified Accountants (ACCA) UK and a Member of the Zambia Institute of Chartered Accountants (ZICA).

**Ackim Chalwe** *BAcc, FCCA*
Ackim L Chalwe is currently the Managing Partner of ALC Business Consulting Limited, and the Transaction Advisor to ISSHIN Consulting Limited, a Japanese consulting firm specializing in Solar Energy projects. Ackim holds a Bachelors of Arts degree in Accountancy from the University of Zambia and is a Fellow of the Association of Chartered Certified Accountants (ACCA) and the Zambia Institute of Chartered Accountants (ZICA). Ackim has over 30 years' experience covering external auditing, internal audit and financial management. Ackim previously worked for Deloitte & Touché Zambia and later as senior manager for Deloitte & Touche Botswana. In between his Deloitte Botswana career, which is from 1995 to 1999, Ackim worked for the central bank of Botswana (Bank of Botswana) in the internal audit department. He later joined FNB Botswana, as Chief Financial Officer, and returned to Zambia in 2008 to set up FNB Zambia serving as Chief Financial Officer and member of the board till 2018.

**Etherton Mpisaunga** *BSc (HONS)*
Etherton Mpisaunga was appointed as Operations Director – Beverages in 2010. He is currently focusing on the Sorghum Beer operations in both Zimbabwe and the region. He initially joined the Group in 1984 and left in 1992 to work for The Coca Cola Company. He rejoined the Group in 1995 and has held various senior management positions within the Sorghum Business Division and Beer marketing.

**Natasha Chiumya** *AHCZ; MBA*
Together with her partner, Natasha established Zambia's first niche practice law firm, Folotiya & Chiumya, specializing exclusively in corporate and commercial matters. She has extensive experience in business climate reform having worked with bilateral and multilateral donors as well as the Government of Zambia, through the Ministry of Commerce Trade and Industry. Her legal experience as in-house counsel for PricewaterhouseCoopers covered a wide range of corporate and commercial matters. As a former deputy chairperson of the Lands Tribunal she, together with her colleagues, resolved land disputes from across the country thereby gaining her extensive insight into land issues in Zambia. Having built a significant property development practice within the law firm, she is the founder of Diaspora Connect Limited which is aimed at revolutionizing the way Zambians abroad buy property back home through the use of technology. With a perspective that goes beyond law, Natasha has the unique ability to understand the business, as well as legal challenges facing client organizations. Natasha holds an honours degree in law from the University of Warwick, UK and as a former Beit fellow, has a Master's in Business Administration (MBA) from the University of Cape Town, South Africa

**Vongai Chiwaridzo** *BAcc (Hons); CA (Z)*
Vongai Chiwaridzo was appointed Finance Director in April 2018. She initially joined the Delta Group as a Finance Manager in 1994 at the then Chibuku Breweries. She occupied various roles in finance and auditing in the group including Finance Director for National Breweries and Chibuku Breweries and head of the Group Internal audit function. She left the group in 2005 for the UK where she worked in the finance sector in various UK entities (Glaxo Smith Kline, Pearson Education and North Middlesex University Hospital). She returned to Zimbabwe in 2008 and held senior positions in TM Supermarkets and Fiscorp Limited, a subsidiary of the Reserve Bank of Zimbabwe. She rejoined Delta in April 2013 as Finance Executive. Vongai has more than 30 years' experience in Finance and Auditing and is a Chartered Accountant (Zimbabwe).

# **Management** Committee

***Ronny Palale*** ***Managing Director***
Ronny Palale is a Chartered Accountant with wide and varied experience who on leaving the profession joined SABMiller in 2004 as an Executive Assistant to the Managing Director of National Breweries Plc. - Zambia then rising through the ranks as Operations Director in 2008. In 2012 he was appointed General Manager of Heinrich's Beverages Ltd tasked with growing the non-alcoholic dairy beverage interests. Latterly Ronny held the position of Route to Consumer Manager for Zambia Breweries Plc. a subsidiary of AB Inbev. Prior to joining SABMiller, Ronny worked for KPMG in Lusaka. He is a Fellow of the Association of Chartered Certified Accountants UK, Fellow of the Zambia Institute of Chartered Accountants (ZICA) and holds a Master of Business Administration from Edinburgh Business School UK.

***Vongai Chiwaridzo*** ***Finance Director***
Vongai Chiwaridzo was appointed Finance Director in April 2018. She initially joined the Delta Group as a Finance Manager in 1994 at the then Chibuku Breweries. She occupied various roles in finance and auditing in the group including Finance Director for National Breweries and Chibuku Breweries and head of the Group Internal audit function. She left the group in 2005 for the UK where she worked in the finance sector in various UK entities (Glaxo Smith Kline, Pearson Education and North Middlesex University Hospital). She returned to Zimbabwe in 2008 and held senior positions in TM Supermarkets and Fiscorp Limited, a subsidiary of the Reserve Bank of Zimbabwe. She rejoined Delta in April 2013 as Finance Executive. Vongai has more than 30 years' experience in Finance and Auditing and is a Chartered Accountant (Zimbabwe).

***Nyasha Denga*** ***Regional Manager - South***
Nyasha was appointed Regional Manager for National Breweries' southern region in January 2018. He joined Delta Corporation, Zimbabwe in July 1995 as a Production supervisor of Chibuku Breweries Plc and had risen to the position of Production Manager when he left Delta Beverages in August 2003. He joined Innscor Group as a General Manager. In December 2005 he rejoined Delta Beverages as Brewery Manager and rose through the positions of Operations Manager, Operations Executive and Sales & Distribution Executive. He left Delta Beverages in August 2016 to join National Breweries Plc, Zambia, then a subsidiary of ABInBev, as its Commercial General Manager until December 2017. Nyasha is a holder of a BSc Biochemistry Honours and Master of Philosophy in Toxicology from the University of Zimbabwe. He is also a holder of a Master of Science in Strategic Management from The Graduate Business School of Chinhoyi University of Technology.

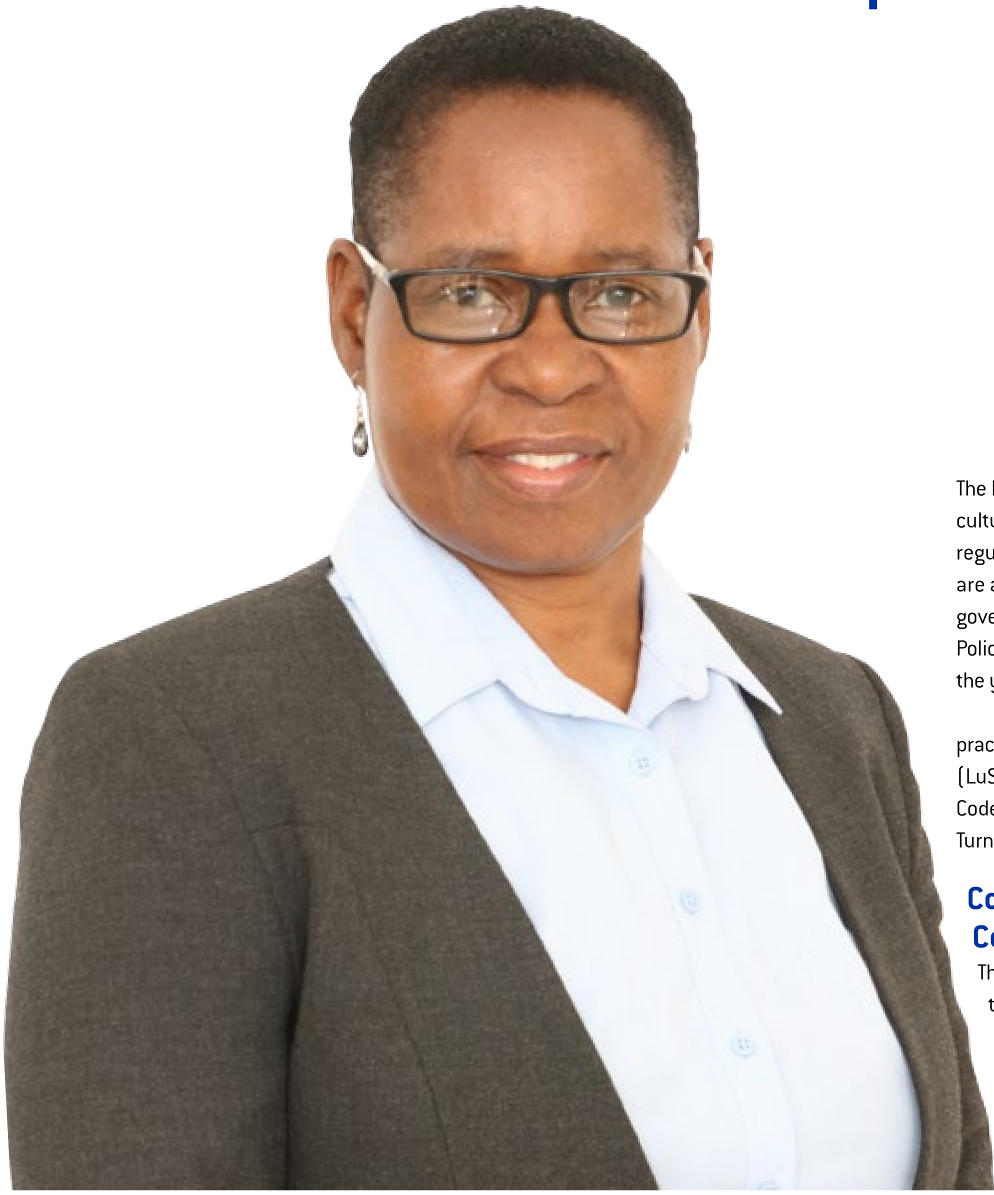
***David S. Phiri*** ***Regional Manager - North***
David was appointed as Regional Manager on 1st April 2018. He began his career with National Breweries as a Management Trainee in 2008 gaining unparalleled experience in the Production and Operations space, while also establishing himself as a respected Manager. Before his appointment, he worked as Brewery Manager (2010), Acting Operations Director (2012) and Plant Manager (2017). He is known for his contribution towards the development of Chibuku Super and roll out of the Chibuku Brand in countries like Tanzania, Ghana and Nigeria. He holds a Bachelor of Science Degree in Production and Operations Management from the Copperbelt University. While his engagements have taken him around Africa, David is proud to call Zambia and National Breweries home.

***Chanda Mwila*** ***HR Business Partner***
Chanda E Mwila is the Human Resources Business Partner. She holds a Bachelor of Arts Degree in Public Administration from the University of Zambia, a Master of Business Administration from the University of East London and is a full member of the Zambia Institute of Human Resources Management. Chanda worked for ZESCO Limited, a parastatal company, for 15 years holding different roles in various sections under the human resources department the last being Senior Manager Human Resources Business Operations. She later moved to the private sector and worked for Zambeef PLC for nine months before joining Sanlam Life Insurance where she served as Head of Human Resources before she joined National Breweries PLC in July 2018. She served on the Administration Committee of the National HIV/AIDS/STI/TB Council of Zambia for two years.

***Mungonyinga Mungonyinga*** ***Engineering Executive***
Mungonyinga Mungonyinga is an engineering professional with experience in asset management, manufacturing improvement and projects management. He was appointed Executive Engineering Manager in March 2018. He began his career with Konkola Copper Mines Plc (KCM) in 2007 managing Konkola Mine mechanical services. In 2013 he joined Lafarge Zambia Plc holding several management positions in maintenance execution and projects management at Ndola and Chilanga cement manufacturing plants. He holds a B.Eng. in Mechanical Engineering from University of Zambia and is a full member of the Engineering Institute of Zambia.

***Joseph Chona*** ***Commercial Executive***
Joseph is a sales and marketing professional with broad experience in FMCG and ICT sectors. He began his career at Zamtel as Management Trainee in 1997 and later held positions of Marketing Manager in 2003 and Sales & Customer Care Manager in 2005. In 2010 he joined Eco Bank as Head of Brand and Communications after which he transitioned to Zambian Breweries PLC as Sales Manager for Beer in 2012. In 2014 he joined Lafarge Zambia Plc as National Sales Manager. In 2015 he Joined KickStart International as National Sales Manager and later held the position of Country Manager for Zambia up to 2017. His last position prior to joining National Breweries was as Head of Indirect Sales at Vodafone (Z) Ltd. Joseph is a holder of a Bachelor of Arts in Public Administration. He is a member of Zambia Institute of Marketing.

# Corporate Governance Statement



Vongai Chiwaridzo **Finance Director & Company Secretary**

The Board believes that a corporate culture of compliance with applicable laws, regulations, internal policies and procedures are a core component of good corporate governance. Therefore, the Anti- Bribery Policy communication was rolled out in during the year.

The Board has drawn some of the best practices from the Lusaka Stock Exchange (LuSE) governance code, the UK Combined Code on Corporate Governance and the Turnbull Guidance Report on internal controls.

## Corporate Governance Compliance

The Board is pleased to report that throughout the period ended 31 March 2019, the Company complied with the LuSE corporate governance code.

**The National Breweries Plc Board, is devoted to achieving the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the business of the company. The Board is charged with responsibility to the company's shareholders for the oversight of governance. Principles of good governance are embedded in the way the Board, its sub-committees and the executive committee operates the business. The Board applies integrity and accountability throughout its activities. Each director brings independence of character and judgment to the Board.**


> *"**National** Breweries Plc is committed to conducting its business responsibly and in accordance with the highest legal and ethical standards. Operating transparently and ethically is not only the right thing to do, it is ultimately good for business.*

## Board Composition and Independence

The Board is comprised of eight directors as follows:

- *Four non-executive directors who are independent of the Company*
- *Two non-executive director who represent the parent company*
- *Two executive directors who are the Managing Director and Finance Director.*

The Board considers that its overall composition in the period under review continued to remain appropriate, having regard to the independence, experience and integrity of its directors. It also considers that the composition of its Audit Committee and General-Purpose Committee remains appropriate.

## OPERATIONS OF THE BOARD

## Board Composition and Attendance

The Board sat five (5) times during the period and in addition held the Annual General Meeting (AGM).

**Board Composition**

| Directors | |
|---|---|
| Richard Mazombwe (Mr.) ‡‡ | *Independent Non-Executive* |
| Valentine Chitalu (Mr.) ** | *Independent Non-Executive* |
| Ronny Palale (Mr.) ‡ | *Executive* |
| Jose Daniel Moran Ramirez (Mr.) ** | *Executive* |
| Vongai Chiwaridzo (Mrs.) ‡‡ | *Executive* |
| George Sokota (Mr.) ** | *Independent Non-Executive* |
| Pearson Gowero (Mr.) ‡ | *Non-Executive* |
| Etherton Mpisaunga (Mr.) ‡ | *Non-Executive* |
| Faith Mukutu (Ms.) ‡‡‡ | *Independent Non-Executive* |
| Faith Mukutu (Ms.) ** | *Executive* |
| Pedro Cruz (Mr.) * | *Non-Executive* |
| Ackim Chalwe (Mr.) ‡‡‡ | *Independent Non-Executive* |
| Natasha Chiumya (Ms.) ‡‡‡ | *Independent Non-Executive* |

** Resigned 28 February 2018*
*** Resigned 29 March 2018*
*‡ Appointed 28 February 2018*
*‡‡ Appointed 29 March 2018*
*‡‡‡ Appointed 23 July 2018*

## The following meetings were held during the period under review:

**Dates of Board Meetings and Attendance**

| Member | 28 Feb 18 | 19 Jul 18 | 26 Oct 18 | 25 Jan 19 | 25 Apr 19 |
|---|---|---|---|---|---|
| Richard Mazombwe (Mr.) | X | √ | √ | √ | √ |
| Valentine Chitalu (Mr.) | √ | X | X | X | X |
| Ronny Palale (Mr.) | √ | √ | √ | √ | √ |
| Jose Daniel Moran Ramirez (Mr.) | √ | X | X | X | X |
| Vongai Chiwaridzo (Mrs.) | X | √ | √ | √ | √ |
| George Sokota (Mr.) | √ | X | X | X | X |
| Pearson Gowero (Mr.) | √ | X | √ | √ | X |
| Etherton Mpisaunga (Mr.) | √ | √ | √ | √ | √ |
| Faith Mukutu (Ms.) | √ | √ | √ | √ | X |
| Pedro Cruz (Mr.) | X | X | X | X | X |
| Ackim Chalwe (Mr.) | X | √ | √ | √ | √ |
| Natasha Chiumya (Ms.) | X | √ | √ | √ | √ |

*X – Not in attendance*

## Operations of the Board

The Executive Directors propose strategy and implement operational decisions concerning the Company's businesses. Non-executive Directors complement the skills and experience of the executive directors, by contributing to the formulation of strategy, policy and decision making through their knowledge and experience of other businesses and sectors. The Board has a majority of non-executive directors. The Executive Directors are also on a performance related remuneration scheme that is determined annually. All the managers are also on this scheme. This enhances productivity and creates a culture of performance at all levels of management.

## Matters reserved for the Board

The Board has specific responsibilities. These include approval of financial statements, the business strategy, the annual capital expenditure plan, material investments and disposals, social and environmental policy and treasury policies.

## Information for the Board

The Board and its sub-committees are supplied with full and timely information, including detailed financial information. This enables executive and non-executive directors to discharge their responsibilities. The company secretary is responsible for advising the chairman on matters of corporate governance.

## Chairman and Managing Director's Roles

The roles of the Chairman and Managing Director are separate with responsibilities divided between them. This separation of responsibilities has been formalised in their respective letters of appointment, approved by the Board.

## Board evaluation

The Board has set benchmark parameters against which the Board's performance is evaluated. This is led by the Chairman with input from the Executive and Non-Executive Directors.

## Retirement and election of directors

It is the Board's policy that new directors are subject to election at the first opportunity following their appointment. Non-executive directors are subject to retirement and re-election on an annual basis.

## The Audit Committee

### Composition

The Audit Committee is composed of four members i.e. three non-executive directors and the Managing Director

## Meetings and attendance

The Audit Committee met twice during the year. Internal Audit services were outsourced.

**Audit Committee Composition**

| Members | Dates of Meetings | |
|---|---|---|
| | 25 Oct 18 | 24 Apr 19 |
| Ackim Chalwe (Mr.) | √ | √ |
| Faith Mukutu (Ms.) | √ | √ |
| Ronny Palale (Mr.) | √ | √ |
| Etherton Mpisaunga (Mr.) | √ | √ |

## Terms of reference

The terms of reference of the audit committee are as follows:

- *Reviewing of annual, quarterly, midyear financial statements, and interim and preliminary announcements before they are submitted to the Board*
- *Examination and review of the internal control environment and the company's statement on internal control*
- *Review of the effectiveness of the internal audit function throughout the year*
- *Review the effectiveness of the system for monitoring compliance with laws and regulations*
- *Recommend to the Board the appointment of the external auditors*
- *Discuss and agree the audit plan with the auditors and receive the final audit report to the Board*

## Relations with auditors

Deloitte and Touché Zambia are the auditors of the company. The company has implemented an internal policy on auditor independence and non-audit services. The Audit Committee is satisfied that, for the period under review, the independence of the auditors has not been affected by the provision of non-audit services.

## Risk Assessments

Functional Heads are responsible for developing the Risk Register which is regularly updated and reviewed by the Management Committee before submission for deliberation by the Audit Committee. The Risk Register addresses the top risks and detailed management plans for mitigation, which are reviewed by the Audit Committee of the Board at each meeting.

## Code of Ethics

Policies on Anti-Bribery, Code of Ethics, Human Rights and Anti-Money Laundering continue to form an integral part of our stringent compliance programme. The Code of Business Conduct covers the following areas: Honest and Ethical Conduct, Environment, Health and Safety, Human Rights, Responsible Drinking, Compliance with Competition and Anti-Trust Laws, Conflicts of Interest, Compliance with Anti-Corruption Laws, Gifts and Hospitality, Political Contributions, Mandates, Books, Records and Controls, Confidentiality, E-mails, Internet and Information Systems, Social Media, Use of Company Assets, Code of Responsible Communication, External Communication and Code of Dealing.

## General Purpose Committee

### Composition

The Board has established a General-Purpose Committee (GPC) comprising one executive and four non-executive directors.

## Meetings and attendance

The General-Purpose Committee met once during the year.

**General-Purpose Committee Composition**

| Members | Dates of Meetings |
|---|---|
| | 25 Jan 19 |
| Pearson Gowero (Mr.) | √ |
| Richard Mazombwe (Mr.) | √ |
| Natasha Chiumya (Ms.) | X |
| Ronny Palale (Mr.) | √ |
| Etherton Mpisaunga (Mr.) | X |

## Terms of Reference

- *To consider and agree all matters relating to the appointment, terms of service, remuneration, benefits including share options, bonus plans and incentive schemes of the Executive Directors and members of the Management Committee*
- *The Committee is constituted as the Nomination Committee for the purposes of considering any nominations for appointment of Directors.*
- *To consider proposals from management on matters that give rise to related party transactions such as management buyouts, empowerment deals etc*
- *Major changes to human resources policies, industrial relations, staff training and recruitment policies.*

# Our Value Statement

**Our People are Our enduring advantage**

- The calibre and commitment of our people set us apart
- We are a diverse and dynamic team
- We select and develop people for the long term
- Performance is what counts
- Health and Safety issues receive priority attention

**Accountability is clear and personal**

- We favour decentralised management and a practical maximum of local autonomy
- Goals and objectives are aligned and clearly articulated
- We prize both intellectual rigour and passion for our work
- We are honest about performance
- We require and enable self-management

**We work and win in teams**

- We actively develop and share knowledge within the Company
- We foster trust and integrity in internal relationships
- We encourage camaraderie and a sense of fun

**We understand and respect our customers and consumers**

- We are endlessly concerned with our customers' needs and perceptions
- We build lasting relationships, based on trust
- We aspire to offer the preferred choices of product and service
- We innovate and lead in a changing world.

**Our reputation is indivisible**

- Our reputation relies on the actions and statements of every employee
- We build our reputation for the long term
- We are fair and ethical in all our dealings

**We do our best for local communities**

- We consciously balance local and group interests
- We benefit the local communities in which we operate
- We endeavor to conduct our business in an environmentally sustainable manner

Testing maize samples in our lab to ensure they meet our high standards before being used in production.

Company-wide implementation of world-class manufacturing (WCM) is the vehicle for building of capabilities and entrenching a new safety focused culture.

# Managing Sustainable Development


## INTRODUCTION

**National Breweries Plc continues to base its Sustainable Development Goals on the United Nations principle that meeting today's needs should not negatively impact the ability of future generations to have a meaningful livelihood.**

Therefore, we continue to focus on the following pillars:

- *Environmental protection*
- *Social responsibility*
- *Economic participation*

This demonstrates our firm commitment to creating employment and empowering individuals in the communities in which we operate.

## Waste Management

The Company supports the government's efforts to improve the management of post-consumer waste in our environment. We are proud of the fact that we have been managing waste in the environment through our partnership with Manja Pamodzi over the last 4 years. Manja Pamodzi is a waste recycling scheme that has been helping to clean up post-consumer packaging waste in communities using a network of local entrepreneurs (also known as aggregators) as the pillars of the project.

Since February 2015, over 6,935 tons of waste has been collected through this project thereby improving sanitation and hygiene in our communities. We are looking forward to enhancing our partnership with Manja Pamodzi over the coming years for the betterment of our communities and the environment at large.

> **Since** *February 2015, over 6,935 tons of waste has been collected thereby improving sanitation and hygiene in our communities.*

National Breweries has also gone further and commenced participation in the monthly city clean up campaigns. Teams of National Breweries staff collaborated with local authorities and the local community to clean up some parts of the cities we operate in. As a responsible corporate citizen, National Breweries will continue to promote good hygiene and a clean environment.


## Lusaka Stock Exchange Green Award 2018

In recognition of our activities aimed at protecting the environment, the Lusaka Stock Exchange (LuSE) awarded National Breweries with the 2018 Green Award. This was at the Corporate Governance awards ceremony which is held annually to recognise listed companies that exceptionally adhere to the LuSE Corporate Governance Code.

We are particularly proud of the Green Award as it is awarded to the company that has shown active concern for environmental sustainability matters throughout the year.

## Agriculture

Maize is a significant ingredient in our brewing process with more than 20,000 tons used annually. A large portion of the maize is bought from small scale farmers. Our intention is to expand our sourcing of maize from smallholder farmers in a way that will continue to create value for the business whilst enhancing the lives of those in the communities we operate in and beyond. This is one way that we continue to contribute towards poverty alleviation and sustainable development in rural communities.

# **Directors'** Report

## The Directors present their annual report on the affairs of the Company together with the financial statements and the auditor's report for the period ended 31 March 2019.

### Principal Activities

The principal activity of the Company continued to be the production, packaging, distribution and sale of traditional beverages. In the opinion of the Directors, all the activities of the Company substantially fall within the same industry categorisation.

### Share Capital

The authorised share capital of the Company remains unchanged at 75,000,000 ordinary shares of K0.01 each, of which 63,000,000 are issued and fully paid.

### Results and Dividends

The loss for the year amounted to K37.6 million (2017: Profit K1.0 million). The Company did not pay dividends during the period (2017: Nil). The Directors did not recommend an interim dividend for the period ended 31 March 2019. Further Directors will not propose a final dividend for the period ended 31 March 2019 (2017: Nil).

### Directors

The following Directors held office during the year and to the date of this report:

| | | |
|---|---|---|
| **Richard Mazombwe (Mr.)** | **Independent Non-Executive** | *Appointed 29 March 2018* |
| **Valentine Chitalu (Mr.)** | **Independent Non-Executive** | *Resigned 29 March 2018* |
| **Ronny Palale (Mr.)** | **Executive** | *Appointed 28 February 2018* |
| **Jose Daniel Moran Ramirez (Mr.)** | **Executive** | *Resigned 29 March 2018* |
| **Vongai Chiwaridzo (Mrs.)** | **Executive** | *Appointed 29 March 2018* |
| **George Sokota (Mr.)** | **Independent Non - Executive** | *Resigned 29 March 2018* |
| **Pearson Gowero (Mr.)** | **Non - Executive** | *Appointed 28 February 2018* |
| **Etherton Mpisaunga (Mr.)** | **Non - Executive** | *Appointed 28 February 2018* |
| **Faith Mukutu (Ms.)** | **Executive** | *Resigned 29 March 2018* |
| **Faith Mukutu (Ms.)** | **Independent Non-Executive** | *Appointed 23 July 2018* |
| **Pedro Cruz (Mr.)** | **Non - Executive** | *Resigned 28 February 2018* |
| **Ackim Chalwe (Mr.)** | **Independent Non-Executive** | *Appointed 23 July 2018* |
| **Natasha Chiumya (Ms.)** | **Independent Non-Executive** | *Appointed 23 July 2018* |

### Number of Employees and Remuneration

The total remuneration of employees during the period amounted to K50.2 million (2017: K38.8 million). The average number of employees for each month of the year was as follows:

| Month | *15 months ended 31 March 2019* | *9 months ended 31 December 2017* | Month | *15 months ended 31 March 2019* | *9 months ended 31 December 2017* |
|---|---|---|---|---|---|
| January | 371 | - | August | 412 | *338* |
| February | 366 | - | September | 407 | *338* |
| March | 359 | - | October | 420 | *342* |
| April | 375 | *353* | November | 411 | *369* |
| May | 402 | *349* | December | 398 | *371* |
| June | 410 | *346* | January | 396 | - |
| July | 414 | *341* | February | 391 | - |

## Health and Safety

The Company has policies and procedures to safeguard the occupational health, safety and welfare of its employees.

## Gifts and Donations

During the period the Company did not make donations (2017: K30,023). The donations are towards corporate social responsibility.

## Property, Plant and Equipment

The Company purchased property, plant and equipment amounting to K7.5 million (2017: K3.2 million) during the period. In the opinion of the Directors, the recoverable amount of property and equipment is not less than the carrying value.

## Auditors

The Company's Auditors, Messrs Deloitte & Touche, indicated their willingness to continue in office. A resolution proposing their reappointment and authorising the Directors to fix their remuneration will be put to the Annual General Meeting.

## Statement on Corporate Governance

National Breweries Plc takes the issue of corporate governance seriously. The Company's focus is to have a sound corporate governance framework that contributes to improved corporate performance and accountability in creating long term shareholder value.

The Board meets at least four times a year and concerns itself with key matters and the responsibilities for implementing the Company's strategy is delegated to management. The Board of Directors continues to provide considerable depth of knowledge and experience to the business.

There is strong focus by the Audit Committee on matters relating to financial operations, fraud, application of accounting and control standards and results. The Audit Committee also meets at least two times a year.

The Company has put in place a Code of Conduct and Anti- Bribery & Anti-Corruption Policy that sets out the standards on how staff should behave with all stakeholders. An effective monitoring mechanism to support management's objective of enforcing the Code of Conduct and Anti- Bribery & Anti-Corruption has been developed and is being used across the Company.

By Order of the Board

*Company Secretary*
*LUSAKA*
*Date: 4 June 2019*

# Statement of Responsibility
## For the Annual Financial Statements

For the period 1 January 2018 to 31 March 2019

**The Companies Act, 2017 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 financial performance. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company. The Directors are further required to ensure the Company adheres to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the Companies Act, 2017.**

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The independent external auditors, Messrs Deloitte & Touche, have audited the financial statements and their report is shown on pages 23 to 25.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, and for such internal controls as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error. In addition, the Directors are responsible for preparing the Directors report.

The Directors are of the opinion that the financial statements set out on pages 27 to 61 give a true and fair view of the state of the financial affairs of the Company and of its financial performance in accordance with International Financial Reporting Standards and the Companies Act, 2017. The Directors further report that they have implemented and further adhered to the corporate governance principles or practices contained in Part VII, Sections 82 to 122 of the Companies Act, 2017.

The Directors have made an assessment of the ability of the Company to continue as a going concern and have no reason to believe that the business will not be a going concern for at least twelve (12) months from the date of this statement.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial framework described above.

### Approval of the financial statements

The financial statements of National Breweries Plc, set out on page 27 to 61, were prepared by the Finance Director and Financial Accountant, both are Chartered Accountants, under the supervision of the Audit Committee and were approved by the Board of Directors on **4 June 2019** and signed on its behalf by:

Richard Mazombwe
*Chairperson*

Ronny Palale
*Managing Director*

To the members of
**National Breweries Plc**

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the financial statements of National Breweries Plc ("the Company"), set out on Pages 27 to 61 which comprise the statement of financial position as at 31 March 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of National Breweries Plc, as at 31 March 2019, and of its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards ("IFRS"), and in the manner required by the Companies Act, 2017.

**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 Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA" code), together with ethical requirements that are relevant to our audit of the financial statements in Zambia. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of matter**

We draw attention to Note 26 of the financial statements, which describes the effects of a prior period adjustments in the Company's financial statements. The prior year adjustments are primarily a correction of misstatements of assets, liabilities and retained earnings as a result of errors occurred in the prior periods. The account lines in the financial statements that have been restated are detailed in Note 26 to the financial statements. Our opinion is not modified in respect of this matter.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| **Revenue recognition** | |
| ▪ The determination of revenue relating to the computation of price discounts; and<br><br>▪ The determination of revenue relating to high volumes of revenue transactions.<br><br>The price discount computation process is highly automated and characterised by high volume of data. As a result of the significance of this process, volume of transactional data involved and the inherent susceptibility of discounts to misstatements, this was considered a key audit matter. | Our procedures included but were not limited to the following:<br><br>▪ Obtained an understanding of the Company's revenue streams.<br>▪ Performed substantive analytical procedures to assess reasonableness of the revenue recorded in the financial statements.<br>▪ Selected a sample of invoices from the general ledger and traced to support documentation such as invoices in order to obtain comfort on the occurrence assertion.<br><br>▪ Performed walkthroughs of the different classes of revenue transactions and evaluated the design and implementation of controls around approval of price discounts.<br><br>▪ Agreed the price discounts captured in the system to manually approved price discounts. |

**Key Audit Matters (Continued)**

| Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| **Revenue recognition** | |
| The revenue recognition policy is disclosed in Note 3 (c) and revenue recognised disclosed in Note 7. | ▪ Performed a recomputation to assess whether the system computed price discounts accurately.<br><br>▪ Traced price discounts recorded during the period to source documentation.<br><br>▪ Involved our Risk Advisory specialist to test the controls within the SAP system and the control environment relevant to revenue.<br><br>We found the controls over price discounts to be effective, and our substantive testing did not reveal any material misstatements. |

**Other Information**

The Directors are responsible for the other information. The other information comprises the Directors' Report, as required by the Companies Act, 2017, which we obtained prior to the date of this auditor's report. The other information 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 or 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 on the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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 Directors for the Financial Statements**

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 have no realistic alternative but to do so.

**Auditors' 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 judgement and maintain professional scepticism 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.

**Auditors' responsibilities for the audit of the financial statements (Continued)**

- 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 the Directors' 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 the Directors 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.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Report on other legal and regulatory requirements**

**Companies Act, 2017**

The Companies Act, 2017 requires that in carrying out our audit of National Breweries Plc, we report on whether:

- there is a relationship, interest or debt which us, as the Company's auditor, have in the Company;
- there are serious breaches by the Company's directors, of corporate governance principles or practices contained in Part VII's Sections 82 to 112 of the Zambia Companies Act of 2017; and
- there is an omission in the financial statements as regards particulars of loans made to a Company Officer (a director, Company secretary or executive officer of a Company) during the year, and if reasonably possible, disclose such information in our opinion.

In respect of the foregoing requirements, we have no matters to report.

**Lusaka Stock Exchange Listing rules**

In accordance with Section 8 (63) of the Lusaka Stock Exchange Listing rules, we report that the Company has complied with the requirements of section 8.63 (b) - (l) and (n) with regards disclosure of Directors' remuneration.

Deloitte & Touche

**DELOITTE & TOUCHE**

**ANDREW NJOVU**
**PARTNER**
**AUD/F000802**

**DATE: 06 June 2019**


# Financial Statements 4

For the period 1 January 2018 to 31 March 2019

| Kwacha'000 | Note | 15 months ended 31 March 2019 | 9 months ended 31 December 2017 Restated* |
|---|---|---|---|
| **Revenue** | 7 | **327,528** | 214,927 |
| Cost of sales | | **(207,818)** | (123,554) |
| **Gross profit** | | **119,710** | 91,373 |
| Distribution costs | | **(24,284)** | (12,129) |
| Administrative expenses | | **(117,321)** | (79,096) |
| **Operating (loss)/ profit** | | **(21,895)** | 148 |
| Finance income | 8 | **313** | - |
| Net exchange/ (losses) gains | 9 | **(6,848)** | 1,098 |
| Finance costs | 10 | **(17,106)** | (9,181) |
| **Loss before tax** | 11 | **(45,536)** | (7,935) |
| Income tax credit | 12 | **7,894** | 8,973 |
| **Total comprehensive (loss)/income for the period** | | **(37,642)** | 1,038 |
| Basic and diluted earnings per share (Kwacha) | 13 | **(0.60)** | 0.02 |

There were no items of other comprehensive income for the period (2017: Nil)

* Certain amounts shown here do not correspond to the 31 December 2017 financial statements and reflect adjustments made, refer to note 26.

# Statement of Financial Position

For the period 1 January 2018 to 31 March 2019

| Kwacha'000 | Note | 31 March 2019 | 31 December 2017 Restated * | 31 March 2017 Restated * |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 16 | **243,106** | 261,902 | 281,296 |
| Intangible assets | 17 | **1,715** | - | 84 |
| Deferred tax asset | 15 | **3,344** | - | - |
| | | **248,165** | 261,902 | 281,380 |
| **Current assets** | | | | |
| Inventories | 18 | **18,006** | 8,702 | 38,573 |
| Trade and other receivables | 19 | **18,479** | 7,221 | 34,141 |
| Current tax asset | 12 | **10,352** | 4,905 | 5,113 |
| Amounts due from related parties | 25 | **642** | 17,655 | - |
| Bank and cash balances | 20 | **7,345** | 25,954 | 15,335 |
| | | **54,824** | 64,437 | 93,162 |
| **Total assets** | | **302,989** | 326,339 | 374,542 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 14 | **630** | 630 | 630 |
| Retained earnings | | **120,699** | 158,341 | 109,047 |
| **Total equity** | | **121,329** | 158,971 | 109,677 |
| **Non-current liabilities** | | | | |
| Long term borrowings | 22 | **25,000** | 90,000 | - |
| Deferred tax liability | 15 | **-** | 4,767 | 13,948 |
| | | **25,000** | 94,767 | 13,948 |
| **Current liabilities** | | | | |
| Bank overdraft | 20 | **44,788** | - | - |
| Short term borrowings | 22 | **15,000** | 10,000 | - |
| Trade and other payables | 21 | **85,942** | 62,601 | 250,917 |
| Amounts due to related parties | 25 | **10,930** | - | - |
| | | **156,660** | 72,601 | 250,917 |
| **Total liabilities** | | **181,660** | 167,368 | 264,865 |
| **Total equity and liabilities** | | **302,989** | 326,339 | 374,542 |

* Certain amounts shown here do not correspond to the 31 December 2017 financial statements and reflect adjustments made, refer to note 26.

The responsibilities of the Company's Directors with regard to the preparation of the financial statements are set out on page 22. The financial statements on pages 27 to 61 were approved for issue by the Board of Directors on **4 June 2019** and were signed on its behalf by:

**MR. R. MAZOMBWE**
**CHAIRPERSON**

**MR. R. PALALE**
**MANAGING DIRECTOR**

For the period 1 January 2018 to 31 March 2019

| Kwacha'000 | Share capital | Retained earnings | Hedge reserve | Total |
|---|---|---|---|---|
| **Balance at 1 April 2016** | **630** | **154,898** | **(5,474)** | **150,054** |
| Loss for the year | - | (45,851) | - | (45,851) |
| Reclassification to profit or loss | - | - | 5,474 | 5,474 |
| **Balance at 31 March 2017** | **630** | **109,047** | **-** | **109,677** |
| Total comprehensive income for the period | - | 9,066 | - | 9,066 |
| **Balance at 31 December 2017 (as previously reported)** | **630** | **118,113** | **-** | **118,743** |
| Prior year adjustment (Note 26) | - | 40,228 | - | 40,228 |
| **At 31 December 2017 (restated *)** | **630** | **158,341** | **-** | **158,971** |
| Total comprehensive loss for the period | - | (37,642) | - | (37,642) |
| **At 31 March 2019** | **630** | **120,699** | **-** | **121,329** |

* Certain amounts shown here do not correspond to the 31 December 2017 financial statements and reflect adjustments made, refer to note 26.

## Statement of Cash Flow

For the period 1 January 2018 to 31 March 2019

| Kwacha'000 | Note | **15 months ended 31 March 2019** | 9 months ended 31 December 2017 Restated * |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before income tax | | **(45,536)** | (7,935) |
| Adjustments for: | | | |
| Interest income | 8 | **(313)** | - |
| Interest expense | 10 | **17,106** | 9,181 |
| Depreciation expense | 16 | **24,748** | 19,688 |
| Amortisation - containers | 16 | **1,343** | - |
| (Profit)/ Loss on sale of property, plant and equipment | | **(1,428)** | 1,244 |
| Impairment loss recognised on trade receivables | 19 | **1,995** | 1,404 |
| Amortisation of intangible assets | 17 | **288** | 84 |
| Unrealised forex losses | | **-** | (601) |
| Prior year adjustments | 26 | **-** | 48,256 |
| **Net cashflow from operating activities before movement in working capital** | | **(1,797)** | 71,321 |
| **Movement in working capital** | | | |
| Increase (decrease) in trade and other receivables | | **(13,253)** | 25,516 |
| Increase (decrease) in inventories | | **(9,304)** | 29,871 |
| Decrease (increase) in amounts due from related party | | **17,013** | (17,655) |
| Increase in amounts due to a related parties | | **10,930** | - |
| Increase (decrease) in trade and other payables | | **23,341** | (188,316) |
| **Cash generated/(used) from operations** | | **26,930** | (79,263) |
| Interest received | 8 | **313** | - |
| Interest paid | 10 | **(17,106)** | (9,181) |
| Income tax paid | 12 | **(5,664)** | - |
| **Net cash generated/ (used) in operating activities** | | **4,473** | (88,444) |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 16 | **(7,461)** | (3,195) |
| Proceeds from sale of property and equipment | | **1,594** | 1,657 |
| Purchase of intangible assets | 17 | **(2,003)** | - |
| **Net cash flows used in investing activities** | | **(7,870)** | (1,538) |
| **Cash flows from financing activities** | | | |
| Loan (repaid)/received | 22 | **(60,000)** | 100,000 |
| **Net cash in/ (out) flows used in financing activities** | | **(60,000)** | 100,000 |
| **Movement in cash and cash equivalents** | | | |
| Net (decrease) increase in cash and cash equivalents | | **(63,397)** | **10,018** |
| Exchange differences in cash and cash equivalents | | **-** | 601 |
| Cash and cash equivalents at beginning of the period | | **25,954** | 15,335 |
| **Cash and cash equivalents at end of the period** | 20 | **(37,443)** | 25,954 |

* Certain amounts shown here do not correspond to the 31 December 2017 financial statements and reflect adjustments made, refer to note 26.

## 1. CORPORATE INFORMATION

National Breweries PLC is incorporated in Zambia under the Companies Act, 2017 as a public limited company, and is domiciled in Zambia. The Company is listed on the Lusaka Stock Exchange and was incorporated in 1968. The address of its registered office is:

Plot 1609/10
Sheki Sheki Road
P O Box 35135
Lusaka

The Company's principal activities are disclosed on page 1 of the directors' report.

The financial statements for the period ended 31 March 2019 were authorised for issue in accordance with a resolution of the directors on 4 June 2019.

## 2. ADOPTION OF NEW AND REVISED STANDARDS

### 2.1 New and amended Standards that are effective for the current year

In the current period, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**Impact of initial application of IFRS 9 Financial Instruments**

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,

2) Impairment of financial assets, and

3) General hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below.

**(a) Classification and measurement of financial assets**

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have not been restated as the impact has been deemed to be insignificant.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently 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.

Specifically:

• debt instruments 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 measured subsequently at amortised cost;

• debt instruments 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 measured subsequently at fair value through other comprehensive income (FVTOCI);

• all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

**2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)**

**2.1 New and amended Standards that are effective for the current year (Continued)**

**Impact of initial application of IFRS 9 Financial Instruments (Continued)**

**(a) Classification and measurement of financial assets (Continued)**

• the Company may 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 in other comprehensive income; and

• the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Company has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI 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. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

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

• financial assets 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.

**(b) 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 Company 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 Company to recognise a loss allowance for expected credit losses on:

(1) Debt investments measured subsequently at amortised cost or at FVTOCI;

(2) Lease receivables;

(3) Trade receivables and contract assets; and

(4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) 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.

However, 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 Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

For the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognised on the date of initial application of IFRS 9 (i.e. 1 January 2018), the directors have compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at 1 January 2017.

**2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)**

**2.1 New and amended Standards that are effective for the current year (Continued)**

**Impact of initial application of IFRS 9 Financial Instruments (continued)**

**(b) Impairment of financial assets (continued)**

The result of the assessment is as follows:

| Items existing as at 01/01/18 that are subject to the impairment provisions of IFRS 9 | Note | Credit risk attributes 1 January 2017 and 1 January 2018 |
|---|---|---|
| Amount due from related parties | 25. | Amounts due from related parties are assessed regarding credit risk at each reporting date. As the same are closely monitored and controlled by the same management, there is no provision matrix being followed on ageing basis.<br><br>There have been no instances observed in the past where collection are assumed to be at risk for such related party receivable. |
| Trade and other receivables | 19. | The Company uses a provision matrix to measure the expected credit loss of trade receivables. Based on the history of the customer and the business environment in which the entity operates in, management considers that the trade receivables are credit impaired if the payments are more than 90 days past due. |
| Cash and bank | 20. | All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions. |

**(c) Classification and measurement of financial liabilities**

A significant 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.

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.

The application of IFRS 9 has had no impact on the classification and measurement of the Company's financial liabilities.

**(d) Disclosures in relation to the initial application of IFRS 9**

There were no financial assets or financial liabilities which the Company had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of IFRS 9.

**Impact of application of IFRS 15 Revenue from Contracts with Customers**

In the current period, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Company's financial statements are described below.

The Company has adopted IFRS 15, 'Revenue from Contracts with Customers' applying the cumulative effect method applied retrospectively to the contracts that are not completed as of 1 January 2018 (being the date of initial application). Accordingly, the comparative information has not been restated. The effect on adoption of the said standard is insignificant on these financial statements.

**2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)**

**2.1 New and amended Standards that are effective for the current year (Continued)**

**Impact of application of IFRS 15 Revenue from Contracts with Customers (continued)**

Revenue is recognised upon transfer of control of promised products or services to the customer at the consideration which the Company has received or expects to receive in exchange of those products or services, net of any taxes / duties, discounts and process waivers. In order to determine if it is acting as a principal or as an agent, the Company assesses whether it is primarily responsible for fulfilling the performance obligation.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Company has adopted the terminology used in IFRS 15 to describe such balances.

The Company's accounting policies for its revenue streams are disclosed in detail in note 3 below. Apart from providing more extensive disclosures for the Company's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Company.

| | |
|---|---|
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).<br>The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. |

**2.2 New and revised IFRS Standards in issue but not yet effective**

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

| | |
|---|---|
| IFRS 16 | Lease |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to IAS 19 | Employee Plan Amendment, Curtailment or Settlement |
| IFRIC 23 | Uncertainty over Income Tax Treatments |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

**IFRS 16 Leases**

<u>General impact of application of IFRS 16 Leases</u>

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Company will be 1 January 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The Company has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Company will not reinstate the comparative information.

## 2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

### 2.2 New and revised Standards in issue but not yet effective (continued)

**IFRS 16 Leases (continued)**

Impact on Lessee Accounting

*Operating leases*

IFRS 16 will change how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Company will:

a) Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

*Finance leases*

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Company will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Impact on Lessor Accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change the Company will reclassify certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses will be recognised on the finance lease receivables. The leased assets will be derecognised and finance lease asset receivables recognised. This change in accounting will change the timing of recognition of the related revenue (recognised in finance income).

**Amendments to IFRS 9 Prepayment Features with Negative Compensation**

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

**2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)**

**2.2 New and revised Standards in issue but not yet effective (continued)**

**Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement**

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied.

The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so. The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

**IFRIC 23 Uncertainty over Income Tax Treatments**

The Annual Improvements include amendments to four Standards.

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

• determine whether uncertain tax positions are assessed separately or as a Company; and

• assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

– If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.

– If no, the entity should reflect the effect of uncertainty in determining its accounting tax position. The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards.

**(b) Basis of preparation**

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Basis of preparation**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

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

**(c) Revenue recognition**

Company’s revenue arises from sales of Chibuku Super and Chibuku Shake Shake to distributors and wholesalers.

Revenue comprises the fair value of the consideration received or receivable for the ale of goods in the ordinary course of the Company's activities. Revenue is shown net of value added tax (VAT), excise duty and discounts.

Revenue is recognised upon transfer of control of promised products or services to the customer at the consideration which the Company has received or expects to receive in exchange of those products or services, net of any taxes/duties, discounts and process waivers. In order to determine if it is acting as a principal or as an agent, the Company assesses whether it is primarily responsible for fulfilling the performance obligation. The Company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sale of goods are recognised in the period in which the Company has delivered products to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Company has objectuve evidence that all criteria for acceptance have been satisfied.

**(d) Segment Reporting**

A business segment is a Company of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

**(e) Foreign currencies**

The financial statements are presented in Zambian Kwacha, being the currency of the primary economic environment in which the company operates (the functional currency). Transactions in foreign currencies are converted into Zambia Kwacha using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the foreign exchange rate ruling at that date. Exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the closing date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss and other comprehensive income as net exchange (losses) / gains.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(f) Property, plant and equipment**

All categories of property, plant and equipment are initially recorded at cost. All property, plant and equipment is subsequently measured at historical cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 of the item can be measured reliably. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Impairment losses on property, plant and equipment are recognized in profit or loss during the period. Reversals of impairment losses are recognized in profit or loss during the period. In addition, impairment losses on revalued assets are recognized in other comprehensive income during the period.

When funds borrowed are specifically for the purpose of obtaining a qualifying asset, the entity determines the amount of the borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of the borrowings.

The carrying amount of property, plant and equipment that is disposed off is derecognized when the criteria for sale of goods in IFRS 15 is met.

Assets are depreciated to the residual values on a straight-line basis over the estimated useful lives. The assets' residual values and useful lives are reviewed at each financial year end or whenever there are indicators for impairment, and adjusted prospectively. Land is not depreciated:

| **Categories** | **Years** |
|---|---|
| Leasehold buildings | 40 - 60 years |
| Equipment | 5 - 25 years |
| Motor vehicles | 4 - 10 years |
| Fixtures, fittings and office equipment | 5 - 15 years |
| Containers | 1 - 2 years |

Gains and losses arising from retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement and disposal.

**(g) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. For lessors lease income from operating leases is recognised in income on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

Leases of property, plant and equipment where the Company has substantially retained all risks and rewards of ownership are classified as finance leases. Finance leases are capitalised by the lessee at the lease's commencement at the lower of fair value of the leased property and present value of minimum lease payments. The Lessor recognises assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease.

For a finance lease interest and depreciation is charged as expense in the periods in which they are incurred.

**(h) Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of raw materials, work in progress (WIP), finished goods and engineering spares is determined using the weighted average cost method less provision for impairment. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Net realisable value is the estimated selling price in the ordinary course of busniess, less the costs of completion and applicable variable selling expenses.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Trade receivables**

Trade receivables are amounts due from customers from merchandise sold in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

**(j) Cash and cash equivalents**

In the statement of cash flows, cash and cash equivalent includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts measured at amortised costs.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(k) Statement of cash flows**

Cash flows are reported using the indirect method as per IAS-7"Statement of cash flows", whereby profit for the period is adjusted for the effect of transactions of a non-cash nature, any deferral or accrual of past or future cash operating receipts or payments and item of income or expenses associated with investing or financing cash flows. The cash flows from operating, investing and financing activities are segregated.

**(l) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method;

When calculating the effective interest rate, the entity estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest rate.

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.

**(m) Financial instruments**

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

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.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

*Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Financial instruments (continued)**

***Financial assets (continued)***

*Classification of financial assets (continued)*

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

*(i) Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired. Interest income is recognised in profit or loss.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Financial instruments (continued)**

***Financial assets (continued)***

*Foreign exchange gains and losses*

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss:
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

*Impairment of financial assets*

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

*(i) Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Financial instruments (continued)**

***Financial assets (continued)***

*(i) Significant increase in credit risk (continued)*

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligation

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

*(1)* The financial instrument has a low risk of default,

*(2)* The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

*(3)* Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

*(ii) Definition of default*

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*(iii) Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

*(a)* significant financial difficulty of the issuer or the borrower;

*(b)* a breach of contract, such as a default or past due event;

*(c)* the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

*(d)* it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

*(e)* the disappearance of an active market for that financial asset because of financial difficulties.

*(iv) Write-off policy*

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the trade receivables has crossed the law of limitation period past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Financial instruments (continued)**

***Financial assets (continued)***

(v) *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

*Derecognition of financial assets*

The Company 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 entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

***Financial liabilities and equity***

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

**Financial liabilities**

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

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.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Financial instruments (continued)**

**Financial liabilities (continued)**

*Foreign exchange gains and losses*

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in profit or loss.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

*Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**(n) Share capital**

Oridnary shares are classified as 'share capital' in equity. Incremental costs direcly attributable to the issue of new ordinary shares are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attiributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received , net of any directly attributable incremental transactions costs and the related income tax effects is included in equity attributable to the Company's holders.

**(o) Trade and other payables**

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid.

Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

**(p) Employee benefits**

*(i) Retirement benefit obligations*

The Company operates a defined contribution scheme for all its employees. The company and all its employees also contribute to the National Pension Scheme Authority Fund, which is a defined contribution scheme.

A defined contribution plan is a retirement benefit plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are in separate trustee administered funds, which are funded by contributions from both the company and employees.

The contributions to the defined contribution schemes are recognised in profit or loss in the year in which they fall.

*(ii) Other entitlements*

The estimated liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

**(q) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Income tax (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except: When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised, except:

When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (r) Intangible assets

The Company's intangible asset comprise of computer software stated at historical cost less accumulated depreciation. Historial cost includes expenditure that is directly attributable to the acquisition of the items. Directly attributable costs that are capitalised as part of computer software include an approximate portion of overheads.

The computer software is amortised over the useful life of 4 years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

### (s) Impairment of non-financial assets

*Property, plant and equipment (PPE) and Intangible assets*

PPE and intangible assets with definite lives are reviewed for impairment, whenever events or changes in circumstances indicate that their carrying values may not be recoverable. For the purpose of impairment testing, the recoverable amount (that is, higher of the fair value less costs to sell and the value-in-use) is determined on an individual asset basis, unless the asset does not generate cash flows that are largely independent of those from other assets, in which case the recoverable amount is determined at the cash-generating-unit ('CGU') level to which the said asset belongs. If such individual assets or CGU are considered to be impaired, the impairment to be recognised in the statement of profit and loss is measured by the amount by which the carrying value of the asset / CGU exceeds their estimated recoverable amount and allocated on pro rata basis. Impairment losses, if any, are recognised in statement of profit and loss.

*Reversal of impairment losses*

Impairment losses are reversed and the carrying value is increased to its revised recoverable amount provided that this amount does not exceed the carrying value that would have been determined had no impairment loss been recognised for the said asset in previous years.

### (t) Dividends

Dividends payable to the company's shareholders are charged to equity in the period in which they are declared.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### (v) Contingencies

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised and disclosed only where an inflow of economic benefits is probable.

### (w) Comparatives

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

### (x) Earning per share (EPS)

The Company presents the Basic and Diluted EPS data. Basic EPS is computed by dividing the profit for the period attributable to the shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted EPS is computed by adjusting, the profit for the year attributable to the shareholders and the weighted average number of shares considered for deriving Basic EPS, for the effects of all the shares that could have been issued upon conversion of all dilutive potential shares. The dilutive potential shares are adjusted for the proceeds receivable had the shares been actually issued at fair value. Further, the dilutive potential shares are deemed converted as at beginning of the period, unless issued at a later date during the period.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

**Critical accounting estimates and assumptions**

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 addressed below.

*Receivables*

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables. The Company uses a provision matrix to measure the expected credit loss of trade receivables. Factors taken into consideration in making such judgments include historical trends and the number of days a debt is past its due date for payment. The carrying amount of impaired receivables is set out in Note 19.

*Taxes*

*(i) Current income tax*

Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date.

*(ii) Deferred tax*

Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the reporting date.

*Determination of residual values and useful lives*

Judgment and estimations are used when determining the residual values and useful lives of property, plant and equipment on annual basis.

## 5. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: Market risk (including Foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors.

***Market risk***

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar(USD), South African Rand (ZAR) and Euro (EUR). Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

Currency exposure arising from liabilities denominated in foreign currencies is managed primarily through the holding of bank balances in the relevant foreign currencies and hedging through foreign currency forward contract. Policy is consistent with previous period.

The sensitivity analysis has been prepared on the basis that the trade receivables, payables and borrowings and the proportion of financial instruments in foreign currencies are all constant.

The assumption in calculation of the sensitivity analysis is that: the sensitivity of the relevant statement of profit or loss is the effect of the assumed changes in the respective market risk, the sensitivity of equity is calculated by considering the effects of the assumed changes of the underlying risks.

At 31 March 2019, if the Kwacha had weakened by 5% (2017: 3%) against the US dollar with all other variables held constant, post tax profit for the period would have been **K0.01 million** (2017: K0.2 million) lower/higher, mainly as a result of US dollar denominated cash balances and trade payables. There would be no impact on equity.

At 31 March 2019, if the Kwacha had weakened/strengthened by 5% (2017: 14%) against the ZAR with all other variables held constant, post tax profit for the period would have been **K0.2 million** (2017: K0.4m) lower/higher, mainly as a result of ZAR denominated cash balances and trade payables. There would be no impact on equity.

At 31 March 2019, if the Kwacha had weakened 5% (2017: 10%) against the EUR with all other variables held constant, post tax profit for the period would have been **K0.8 million** (2017: K0.7 million) lower/higher, mainly as a result of EUR denominated cash balances and trade payables. There would be no impact on equity.

**Exposure to currency risk**

The Company's exposure to foreign currency risk was as follows:

Exposure to currency risk

**31 March 2019**

| | **USD** | **ZAR** | **EUR** | **Total** |
|---|---|---|---|---|
| Cash & cash equivalents (net) (note 20) | 104 | 106 | 4,554 | 4,764 |
| Trade and other payables (note 21) | (123) | (5,328) | (1,463) | (6,914) |
| | **(19)** | **(5,222)** | **3,091** | **(2,150)** |

**31 December 2017**

| | **USD** | **ZAR** | **EUR** | **Total** |
|---|---|---|---|---|
| Cash & cash equivalents (net) (note 20) | 4,068 | 1,056 | 2,925 | 8,049 |
| Trade and other payables (note 21) | (4,170) | (3,704) | (3,143) | (11,017) |
| | (102) | (2,648) | (218) | (2,968) |

The following exchange rates applied during the period:

**31 March 2019**

| | **USD** | **ZAR** | **EUR** |
|---|---|---|---|
| Average Rate | 10.75 | 0.80 | 12.58 |
| Closing Rate | 11.95 | 0.86 | 13.56 |

**31 December 2017**

| | **USD** | **ZAR** | **EUR** |
|---|---|---|---|
| Average Rate | 9.99 | 0.81 | 11.99 |
| Closing Rate | 9.95 | 0.81 | 11.96 |

**5. FINANCIAL RISK MANAGEMENT (CONTINUED)**

***Market risk (continued)***

(ii) Price risk

The Company does not hold any financial instruments subject to price risk.

(iii) Cash flow and fair value interest rate risk

The Company's interest bearing financial liabilities were the overdraft of **K50 million** (2017: nil) and the borrowing of **K40 million** at the period end (2017: K100 million). The interest rate consists of the Monetary Policy Rate (MPR) plus a margin. The margin is fixed at an agreed period (subject to the significant change in market condition) and on which it was therefore not exposed to cash flow interest rate risk. The Company regularly monitors financing options available to ensure optimum interest rates are obtained. At 31 March 2019, if effective interest rates on borrowings had been 2% higher/lower with all other variables held constant, pre tax profit would have been **K2.5 million** (2017: K4.7 million) lower/higher.

***Credit risk***

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the company and arises from cash equivalents and deposits with financial institutions and principally from credit exposures to customers relating to outstanding receivables. For banks and financial institutions, only reputable institutions are used.

The amount that best represents the Company's maximum exposure to credit risk at 31 March 2019 is made up as follows:

| | **Note** | **31 March 2019** | 31 December 2017 |
|---|---|---|---|
| Cash and cash equivalents | 20 | **7,345** | 25,954 |
| Trade receivables (net) | 19 | **7,453** | 5,080 |
| | | **14,798** | 31,034 |

**Impairment losses**

The aging of trade receivables at the reporting date was:

| | **31 March 2019** | **31 March 2019** | 31 Dec 2017 | 31 Dec 2017 |
|---|---|---|---|---|
| | **K'000 Gross amount** | **K'000 Impaired** | K'000 Gross amount | K'000 Impaired |
| 30 days | **8,199** | **-** | 6,747 | - |
| 60 days | **995** | **-** | 783 | - |
| 90 days and above | **2,311** | **4,052** | 282 | 2,734 |
| | **11,505** | **4,052** | 7,812 | 2,734 |

Collateral is held for some of the above assets namely distributors with bank guarantees of **K350,000** as at 31 March 2019 (2017: nil bank guarantees). Trade receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the above assets are either past due or impaired except for the following interconnect, one network, roaming and distributor amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced):

| | **31 March 2019** | 31 December 2017 |
|---|---|---|
| Past due but not impaired: | | |
| - by up to 30 days | **2,256** | 1,116 |
| - by 31 to 90 days | **157** | 840 |
| Total past due but not impaired | **2,413** | 1,956 |

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

***Liquidity risk***

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the finance department maintain flexibility in funding by maintaining availability under committed credit lines.

The table below summarises the maturity profile of the company's financial liabilities based on contractual undiscounted payments.

| | Note | Less than 1 year K'000 | Between 1 and 2 years K'000 | Between 2 and 5 years K'000 | Over 5 years K'000 |
|---|---|---|---|---|---|
| **At 31 March 2019** | | | | | |
| - Trade and other payables | 21 | 85,942 | - | - | - |
| - Related company payables | 25 (v) | 10,930 | - | - | - |
| - Bank overdrafts | 20 | 44,788 | - | - | - |
| - Borrowings | 22 | 15,000 | - | 25,000 | - |
| **At 31 December 2017** | | | | | |
| - Trade and other payables | 21 | 62,601 | - | - | - |
| - Related company payables | 25 (v) | - | - | - | - |
| - Bank overdrafts | 20 | - | - | - | - |
| - Borrowings | 22 | 10,000 | - | 90,000 | - |

## 6. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

The gearing ratios at 31 March 2019 and 31 December 2017 were as follows:

| **Kwacha'000** | **31 March 2019** | 31 December 2017 |
|---|---|---|
| Total borrowings (including bank overdraft and loan) | 84,788 | 100,000 |
| Less: cash and cash equivalents | (7,345) | (25,954) |
| Net debt | 77,443 | 74,046 |
| Total equity | 121,329 | 158,971 |
| Total capital | 198,772 | 233,018 |
| **Gearing ratio** | **39%** | 32% |

## 7. REVENUE

The Company derives its revenue from contracts with customers for the transfer of product over time and at a point in time in the following two product lines. Analysis of revenue by category:

| **Kwacha'000** | **15 months ended 31 March 2019** | 9 months ended 31 December 2017 |
|---|---|---|
| Chibuku Super | **213,476** | 138,621 |
| Chibuku Shake Shake | **114,052** | 76,306 |
| | **327,528** | 214,927 |

The Company has a single reportable segment. The operations of the Company are located in only one geographic location, Zambia in Lusaka, Kitwe and Ndola.

| Kwacha'000 | | 15 Months ended 31 March 2019 | 9 Months ended 31 December 2017 Restated* |
|---|---|---|---|
| **8.** | **OTHER OPERATING & FINANCE INCOME** | | |
| | Net foreign exchange gains/ (losses) other | **313** | - |
| **9.** | **NET EXCHANGE (LOSSES)/GAIN** | | |
| | Net exchange (loss)/gain arose on: | | |
| | Borrowings and cash and cash equivalents | **(6,848)** | 1,098 |
| **10.** | **FINANCE COSTS** | | |
| | Interest expense on borrowings | **(17,106)** | (9,181) |
| **11.** | **LOSS BEFORE TAX** | | |
| | Loss before tax is stated after crediting: | | |
| | Profit/ (Loss) on disposal | **1,428** | (1,244) |
| | Interest income (note 8) | **313** | - |
| | Operating lease rentals | **54** | - |
| | and after charging: | | |
| | Employee benefits expense | **51,043** | 38,753 |
| | Depreciation on property and equipment (Note 16) | **24,748** | 17,589 |
| | Receivables - provision for impairment losses (note 19) | **1,995** | 1,404 |
| | Auditors' remuneration | **651** | 434 |
| | Amortisation of intangible assets (Note 17) | **288** | 84 |
| | Donations | **-** | 30 |
| **12.** | **INCOME TAX** | | |
| | Current income tax | **217** | 208 |
| | Deferred income tax (Note 15) | **(8,111)** | (9,181) |
| | | **(7,894)** | (8,973) |
| | The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows: | | |
| | Loss before income tax | **(45,536)** | (99,307) |
| | Tax calculated at the statutory income tax rate of 24% and 20% | **(10,929)** | (19,861) |
| | Tax effect of: | | |
| | Non deductible expenses | **2,368** | 2,825 |
| | Provision held against ZDA benefit reversal | **-** | (12,617) |
| | Expenses not deductible for tax purposes (net) | **-** | - |
| | Effect of income taxed using a higher tax rate | **68** | 89 |
| | Effects of change in tax rate on deferred tax due to ZDA incentives | **599** | 2,317 |
| | Income tax credit | **(7,894)** | (27,248) |

| Kwacha'000 | 31 March | 31 December |
|---|---|---|
| **12. INCOME TAX (CONTINUED)** | **2019** | 2017 |
| **Current tax asset** | | |
| *Current income tax movement in the statement of financial position:* | | |
| At January | **4,905** | 5,113 |
| Current income tax charge | **(217)** | (208) |
| Payments during the year | **5,664** | - |
| **At end of the year** | **10,352** | 4,905 |

Income tax provisional returns have been filed with the Zambia Revenue Authority (ZRA) for the period ended 31 March 2019. Quarterly payments for the period ended 31 March 2019 were made on the due dates during the period.

Subject to agreement with the Zambia Revenue Authority, the Company has estimated tax losses of approximately **K162.4 million** (2017: K158.2 million) available to carry forward for a period of not more than 5 years from the charge year in which they were incurred, for set off against future taxable profits from the same source.

These losses expire as follows:

| | | |
|---|---|---|
| 2015 losses to be carried forward to 2020 | **38,898** | 38,898 |
| 2016 losses to be carried forward to 2021 | **120,759** | 120,759 |
| 2017 losses to be carried forward to 2022 | **(1,494)** | (1,494) |
| 2018 losses to be carried forward to 2023 | **4,283** | - |
| | **162,446** | 158,163 |

## 13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. There were no potentially dilutive shares outstanding at 31 March 2019 and 31 December 2017. Diluted earnings per share is therefore the same as basic earnings per share.

| | | |
|---|---|---|
| Profit/(loss) attributable to the equity holders of the Company | **(37,642)** | 1,038 |
| Weighted average number of ordinary shares (Nos '000) | **63,000** | 63,000 |
| Basic/diluted earnings per share (Kwacha) | **(0.60)** | 0.02 |

## 14. SHARE CAPITAL

| | **Number of shares (million)** | **Ordinary shares (K 000)** | **Share premium (K 000)** |
|---|---|---|---|
| **At 31 March 2019** | 63,000 | 630 | - |
| At 31 December 2017 | 63,000 | 630 | - |

The total authorised number of ordinary shares is 75 million with a par value of K0.01 per share. The total issued number of ordinary shares is 63 million with a par value of K0.01 per share. All issued shares are fully paid.

**Kwacha'000**

## 15. DEFERRED TAX

Deferred tax liability is calculated using the enacted income tax rate of 35**%** (2017: 35%). The movement on the deferred tax account is as follows:

| | **31 March 2019** | 31 December 2017 Restated* |
|---|---|---|
| **At the begining of the period** | **4,767** | 13,948 |
| Credit to profit or loss | **(8,111)** | (9,181) |
| **At the end of the period** | **(3,344)** | 4,767 |

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax (assets) liabilities, deferred income tax charge/(credit) in profit or loss, and deferred income tax charge/(credit) in equity are attributable to the following items:

| | **At 1 January** | **Charged/ (credited) to profit/loss** | **At 31 March** |
|---|---|---|---|
| | **K'000** | **K'000** | **K'000** |
| **31 March 2019** | | | |
| **Deferred income tax liabilities** | | | |
| Property and equipment | 36,598 | 4,487 | 41,085 |
| Unrealised exchange gains | - | 12 | 12 |
| | 36,598 | 4,499 | 41,097 |
| **Deferred income tax assets** | | | |
| Other temporary deductible differences | (198) | (5,256) | (5,454) |
| Tax losses | (31,633) | (7,354) | (38,987) |
| | (31,831) | (12,610) | (44,441) |
| | **4,767** | **(8,111)** | **(3,344)** |
| **31 December 2017** | | | |
| **Deferred income tax liabilities** | | | |
| Property and equipment | 56,311 | (19,713) | 36,598 |
| | 56,311 | (19,713) | 36,598 |
| **Deferred income tax assets** | | | |
| Other temporary deductible differences | (143) | (55) | (198) |
| Tax losses | (54,837) | 23,204 | (31,633) |
| | (54,980) | 23,149 | (31,831) |
| Provision against ZDA tax incentives | 12,617 | (12,617) | - |
| **Net deferred income tax liability (as restated)** | **13,948** | **(9,181)** | **4,767** |

**(i)** In year 2018 the Company has computed the deferred tax basis balance sheet approach, which has resulted into the excess liability reversal of **K8.1 million** (2017 : K9.2 million)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

**Kwacha'000**

## 16. TANGIBLE ASSETS

| | Leasehold buildings | Equipment | Fixture, fittings, office equipment | Capital work in progress (i) | Total |
|---|---|---|---|---|---|
| **COST** | | | | | |
| At 1 April 2017 | 91,598 | 295,274 | 8,449 | 4,625 | 399,946 |
| Additions | - | 995 | - | 2,200 | 3,195 |
| Disposals | - | (1,802) | - | - | (1,802) |
| Transfers | - | 128 | - | (128) | - |
| Asset retirement | (3,793) | (4,472) | (58) | - | (8,323) |
| Prior year adjustment | - | - | - | (1,099) | (1,099) |
| **At 31 December 2017** | **87,805** | **290,123** | **8,391** | **5,598** | **391,917** |
| At 1 January 2018 | 87,805 | 290,123 | 8,391 | 5,598 | 391,917 |
| Additions | - | - | - | 7,461 | 7,461 |
| Disposals | - | (4,814) | - | - | (4,814) |
| Adjustments* | (1,716) | (34,255) | (5,362) | 1,300 | (40,034) |
| Transfers | 1,919 | 11,096 | 1,127 | (14,143) | - |
| **At 31 March 2019** | **88,008** | **262,150** | **4,156** | **216** | **354,531** |
| **DEPRECIATION** | | | | | |
| At 1 April 2017 | (9,291) | (94,420) | (6,616) | - | (110,327) |
| Charge for the year **(ii)** | (1,739) | (15,759) | (91) | - | (17,589) |
| Prior year adjustment | - | (2,099) | - | - | (2,099) |
| **At 31 December 2017** | **(11,030)** | **(112,278)** | **(6,707)** | **-** | **(130,015)** |
| At 1 January 2018 | (11,030) | (112,278) | (6,707) | - | (130,015) |
| Charge for the year | (2,909) | (21,540) | (299) | - | (24,748) |
| Disposal | - | 4,648 | - | - | 4,648 |
| Adjustments* | 1,668 | 33,940 | 4,425 | - | 40,034 |
| Container write off | - | (1,343) | - | - | (1,343) |
| **At 31 March 2019** | **(12,271)** | **(96,573)** | **(2,581)** | - | **(111,424)** |
| **Carrying amount:** | | | | | |
| **At 31 March 2019** | **75,737** | **165,577** | **1,576** | **216** | **243,106** |
| At 31 December 2017 | 76,775 | 177,845 | 1,684 | 5,598 | 261,902 |

A schedule listing of the properties as required by section 279 and the second schedule of the Companies Act, 2017 is available for inspection by the members or their authorised representatives at the registered office of the Company.

*Adjustment relates to alignment of prior year overstatement in cost and accumulated depreciation numbers.

**Kwacha'000**

## 17. INTANGIBLE ASSETS

| | Intangible assets | Capital work in progress | Total |
|---|---|---|---|
| **Historical Cost :** | | | |
| **At 1 April 2017** | 2,450 | - | 2,450 |
| **At 31 December 2017** | 2,450 | - | 2,450 |
| **At 1 January 2018** | 2,450 | - | 2,450 |
| Additions | - | 2,003 | 2,003 |
| Transfers | 2,003 | (2,003) | - |
| **At 31 March 2019** | **4,453** | - | **4,453** |
| **Depreciation** | | | |
| **At 1 April 2017** | (2,366) | - | (2,366) |
| Charge for the year | (84) | - | (84) |
| **At 31 December 2017** | (2,450) | - | (2,450) |
| **At 1 January 2018** | (2,450) | - | (2,450) |
| Charge for the year | (288) | - | (288) |
| **At 31 March 2019** | **(2,738)** | **-** | **(2,738)** |
| **Carrying amount:** | | | |
| **At 31 March 2019** | **1,715** | **-** | **1,715** |
| At 31 December 2017 | - | - | - |

## 18. INVENTORIES

| | **31 March 2019** | 31 December 2017 Restated* |
|---|---|---|
| Merchandise held for sale | **18,006** | 8,702 |

The cost of inventories recognized as an expense and included in 'cost of sales' amounted to **K126 million** (2017: K114 million).

There was inventory write down in the year ended 31 March 2019 of **K1.05 million** (2017: nil).

## 19. TRADE AND OTHER RECEIVABLES

| | | |
|---|---|---|
| Trade receivables | **11,505** | 7,814 |
| Less provision for impairment losses | **(4,052)** | (2,734) |
| Net trade receivables | **7,453** | 5,080 |
| Prepayments | **9,435** | - |
| Other receivables | **1,591** | 2,141 |
| | **18,479** | 7,221 |
| **Balance at the begining of the period** | **2,734** | 1,330 |
| Transfer to credit-impaired | **1,995** | 1,404 |
| Amounts recovered | **(469)** | - |
| Amounts written off | **(208)** | - |
| **Balance at the end of the period** | **4,052** | 2,734 |

| Kwacha'000 | 31 March 2019 | 31 December 2017 Restated* |
|---|---|---|
| **20. CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | **7,345** | 25,849 |
| Cash in hand | **-** | 105 |
| | **7,345** | 25,954 |
| Bank overdrafts | **(44,788)** | - |
| | **(37,443)** | 25,954 |

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

The Company had an overdrawn amount as at the year-end of K44.8 million (2017: K Nil). The overdraft facility limit is **K50.0 million** and is subject to an annual review. No collateral is held for this facility.The overdraft limit was not exceeded at any time during the period.

| | | |
|---|---|---|
| Standard Chartered Bank Zambia Plc | **(44,788)** | - |

## 21. TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| Trade payables | **57,221** | 31,546 |
| Accrued expenses | **26,333** | 29,088 |
| Divdends payable | **2,388** | 1,967 |
| | **85,942** | 62,601 |

Trade payables are non interest bearing and are normally settled on 60 day terms. Accrued expenses and other payables are non interest bearing and have an average term of 90 days.

The carrying amount of the above payables and accrued expenses approximate their fair values because of their short term nature.

## 22. BORROWINGS

| | | |
|---|---|---|
| Current | **15,000** | 10,000 |
| Non current | **25,000** | 90,000 |
| | **40,000** | 100,000 |

The borrowings are due to Stanbic Bank Zambia Limited.

| | | |
|---|---|---|
| **At 1 January 2017** | **-** | - |
| Draw down during the year | **100,000** | 100,000 |
| **At 31 December 2017** | **100,000** | 100,000 |
| Repayments in the year | **(60,000)** | - |
| **At 31 March 2019** | **40,000** | 100,000 |

The loan tenor is 5 years from 28 December 2017 at an interest rate of 20.99%. Stanbic Bank Zambia Limited holds National Breweries Plc Lusaka Brewery property collateral for this facility.

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## 23 CONTINGENT LIABILITIES

### Legal proceedings

The Company had some pending legal proceedings as at 31 March 2019. The directors are of the opinion that having obtained relevant legal advice that there will be no material losses arising from pending proceedings against the Company.

### Tax proceedings

During the year, Zambia Revenue Authority (ZRA) did not issue any administrative assessments relating to Withholding tax, Excise Duty and Value Added Tax (VAT).

## 24 CAPITAL COMMITMENTS

| | **31 March 2019** | 31 December 2017 Restated* |
|---|---|---|
| Authorised by the directors but not contracted for | **15,840** | - |
| Capital expenditure contracted (gross) as at the reporting date but not recognised in the financial statements is as follows: | **1,334** | - |

The capital expenditure is to be financed out of the Company's own cash resources and existing borrowing facilities

## 25. RELATED PARTY DISCLOSURES

The following transactions were carried out with related parties:

### i) Purchase of goods and services

| **Name of related party** | **Country of incorporation** | **Relationship to Company** | | |
|---|---|---|---|---|
| Mubex | Mauritius | Fellow subsidiary | **-** | 18,265 |
| | | | **-** | 18,265 |

### ii) Sale of goods and services

| **Name of related party** | **Country of incorporation** | **Relationship to Company** | | |
|---|---|---|---|---|
| Heinrich's Syndicate Ltd | Zambia | Parent | **-** | 2,853 |
| SABMiller International BV | United Kingdom | Fellow subsidiary | **-** | 6,455 |
| | | | **-** | 9,308 |

### iii) Management fees expenses

| | | | | |
|---|---|---|---|---|
| Delta Corporation Limited | Zimbabwe | Parent Company | **2,607** | - |
| Bevman Services AG (Management fees) | Netherlands | Fellow subsidiary | **-** | 851 |
| | | | **2,607** | 851 |

### iv) Payable from related parties

| **Name of related party** | **Country of incorporation** | **Relationship to Company** | | |
|---|---|---|---|---|
| Heinrich's Syndicate Ltd (Note 19) | Zambia | Parent Company | **-** | 17,655 |
| Delta Corporation Limited | Zimbabwe | Parent Company | **642** | - |
| | | | **642** | 17,655 |

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## 25 RELATED PARTY DISCLOSURE (CONTINUED)

### v) Payable to related parties

| Name of related party | Country of incorporation | Relationship to Company | 31 March 2019 | 31 December 2017 |
|---|---|---|---|---|
| Zambian Breweries Plc | Zambia | Related party | **3,063** | - |
| Delta Corporation Limited | Zimbabwe | Parent Company | **7,867** | - |
| | | | **10,930** | - |

No provisions for impairment losses have been required in 2018 and 2017 for any related party receivables.

Amounts due from/to related parties carry no interest , are receivable/payable on demand and are at arm length.

### vi) Key management compensation

| | 31 March 2019 | 31 December 2017 |
|---|---|---|
| Salaries and other short-term employment benefits | **12,207** | 921 |

### vii) Directors' remuneration

| | 31 March 2019 | 31 December 2017 |
|---|---|---|
| Fees for services as a director | **852** | 376 |

### viii) Compensation of directors for the period ended 31 March 2019

| | Sitting Fees | Basic Salary | Motor Vehicle Allowance | Performance Bonus | Out of Country Allowance | Housing Allowance | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **Non-Executive** | | | | | | | | |
| Richard Mazombwe (Mr.) | 279,426 | - | - | - | - | - | - | 279,426 |
| Pearson Gowero (Mr.) | - | - | - | - | - | - | - | - |
| Etherton Mpisaunga (Mr.) | - | - | - | - | - | - | - | - |
| Faith Mukutu (Ms.) | 170,605 | - | - | - | - | - | - | 170,605 |
| Ackim Chalwe (Mr.) | 230,476 | - | - | - | - | - | - | 230,476 |
| Natasha Chiumya (Ms.) | 171,042 | - | - | - | - | - | - | 171,042 |
| **Executive** | | | | | | | | |
| Ronny Palale (Mr.) | - | 1,688,460 | 561,540 | 112,564 | - | - | 775,044 | 3,137,608 |
| Vongai Chiwaridzo (Mrs.) | - | 1,249,821 | 449,232 | 91,913 | 187,473 | 280,195 | 401,429 | 2,660,063 |
| | **851,549** | **2,938,281** | **1,010,772** | **204,477** | **187,473** | **280,195** | **1,176,473** | **6,649,220** |

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## 26. PRIOR PERIOD ADJUSTMENTS

The prior year adjustments are primarily a correction of overstated assets and an intercompany payable balance as detailed below;

- The bank balance was overstated due to unprocessed payroll costs and overstated deposits.
- Receivables included invalid insurance claims.
- Containers were overstated due to inclusion of damaged stocks.
- Fixed assets included unprocessed disposals and depreciation charges.
- The intercompany payable balance was overstated as a result of an invalid entry.

### i. Statement of comprehensive income

| Kwacha '000 | Previously reported | Impact of the adjustment | Restated |
|---|---|---|---|
| **Revenue** | 214,927 | - | 214,927 |
| Cost of sales | (144,170) | 20,616 | (123,554) |
| **Gross profit** | 70,757 | 20,616 | 91,373 |
| Distribution costs | (38,384) | 26,255 | (12,129) |
| Administrative expenses | (11,376) | (67,720) | (79,096) |
| Other operating expenses | (184) | 184 | - |
| **Operating (loss) profit** | 20,813 | (20,664) | 148 |
| Finance income | 1,720 | (1,720) | - |
| Net exchange losses | - | 1,098 | 1,098 |
| Finance costs | (9,764) | 583 | (9,181) |
| **Loss before tax** | 12,769 | (20,703) | (7,935) |
| Income tax credit | (3,703) | 12,676 | 8,973 |
| **Total comprehensive income for the period** | **9,066** | **(8,027)** | **1,038** |

**Kwacha'000**

## 26. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

### ii. Statement of financial position

| | As at 31 December 2017 | | |
|---|---|---|---|
| | Previously reported | Impact of the adjustment | Restated |
| **Non-current assets** | | | |
| Property , plant and equipment | 265,100 | (3,198) | 261,902 |
| | 265,100 | (3,198) | 261,902 |
| **Current assets** | | | |
| Inventories | 8,702 | - | 8,702 |
| Trade and other receivables | 15,146 | (7,925) | 7,221 |
| Current tax asset | 4,905 | - | 4,905 |
| Amounts due from related parties | - | 17,655 | 17,655 |
| Bank and cash balances | 43,606 | (17,652) | 25,954 |
| | 72,359 | (7,922) | 64,437 |
| **Total assets** | **337,459** | **(11,120)** | **326,339** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 630 | - | 630 |
| Retained earnings | 118,113 | 40,228 | 158,341 |
| **Total equity** | 118,743 | 40,228 | 158,971 |
| **Non-current liabilities** | | | |
| Long term borrowings | 90,000 | - | 90,000 |
| Deferred tax liability | 17,443 | (12,676) | 4,767 |
| | 107,443 | (12,676) | 94,767 |
| **Current liabilities** | | | |
| Short term borrowings | 10,000 | - | 10,000 |
| Trade and other payables | 63,083 | (482) | 62,601 |
| Amounts due to related parties | 38,190 | (38,190) | - |
| | 111,273 | (38,672) | 72,601 |
| **Total liabilities** | 218,716 | (51,348) | 167,368 |
| **Total equity and liabilities** | **337,459** | **(11,120)** | **326,339** |

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## 26. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

### iii. Statement of cash flows

| Kwacha '000 | For the 9 months period ended 31 December 2017 | | |
|---|---|---|---|
| | Previously reported | Impact of the adjustment | Restated |
| **Cash flows from operating activities** | | | |
| Loss before income tax | 12,769 | (20,703) | (7,934) |
| Adjustments for: | | | |
| Interest income | (583) | 583 | - |
| Interest expense | 9,764 | (583) | 9,181 |
| Depreciation expense | 17,589 | 2,099 | 19,688 |
| Loss on sale of property, plant and equipment | 145 | 1,099 | 1,244 |
| Impairment loss recognised on trade receivables | - | 1,404 | 1,404 |
| Amortisation of intangible assets | 84 | - | 84 |
| Unrealised forex losses | (601) | - | (601) |
| Prior year adjustment on misstatements | - | 48,256 | 48,256 |
| **Net cashflow from operating activities before movement in working capital** | 39,167 | 32,154 | 71,321 |
| **Movement in working capital** | (100,778) | (49,806) | (150,584) |
| **Cash generated from operations** | (61,611) | (17,652) | (79,263) |
| Interest received | 583 | (583) | - |
| Interest paid | (9,764) | 583 | (9,181) |
| **Net cash used in operating activities** | (70,792) | (17,652) | (88,444) |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | (3,195) | - | (3,195) |
| Proceeds from sale of property and equipment | 1,657 | - | 1,657 |
| Net cash flows used in investing activities | (1,538) | - | (1,538) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | 100,000 | - | 100,000 |
| Net cash flows used in financing activities | 100,000 | - | 100,000 |
| **Movement in cash and cash equivalents** | | | |
| Net (decrease) increase in cash and cash equivalents | 27,670 | (17,652) | 10,018 |
| Exchange differences in cash and cash equivalents | 601 | - | 601 |
| Cash and cash equivalents at beginning of the year | 15,335 | - | 15,335 |
| **Cash and cash equivalents at end of the period** | **43,606** | **(17,652)** | **25,954** |

## 27. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- *Level 1* : Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- *Level 2* : Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- *Level 3* : Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

**Categories of financial instruments**

| **Financial assets** | **31 March 2019** | 31 December 2017 Restated * |
|---|---|---|
| Assets at amortised cost: | | |
| Cash and bank balances | **7,345** | 25,954 |
| Trade and other receivables | **18,479** | 7,221 |
| Amounts due from related parties | **642** | 17,655 |
| | **26,466** | 50,830 |
| **Financial liabilities** | | |
| Liabilities at amortised cost: | | |
| Bank overdraft | **44,788** | - |
| Trade and other payables | **85,942** | 62,601 |
| Amounts due to related parties | **10,930** | - |
| Borrowings | **40,000** | 100,000 |
| | **181,660** | 162,601 |

## 28. EVENTS AFTER REPORTING DATE

There were no material subsequent events for the period ended 31 March 2019. The directors are not aware of any other matter or circumstances since the financial year end and the date of this report, not otherwise dealt with in the financial statements, which significantly affects the financial position of the company and the results of its operations.

## Principal Shareholders

The 10 largest shareholding in the company and the respective number of shares held at 31 March 2019 is as follows;

| Rank | Name of Shareholder | % | Number of Shares |
|---|---|---|---|
| 1 | CHIBUKU BREWERIES LIMITED | 70.00 | 44,100,000 |
| 2 | STANDARD CHARTERED ZAMBIA SECURITIES SERVICES NOMINEES LTD | 8.68 | 5,471,317 |
| 3 | PUBLIC SERVICE PENSIONS FUND BOARD | 8.17 | 5,147,500 |
| 4 | SATURNIA REGNA PENSION TRUST FUND | 2.52 | 1,588,566 |
| 5 | NATIONAL PENSION SCHEME AUTHORITY | 2.22 | 1,400,000 |
| 6 | WORKERS' COMPENSATION FUND CONTROL BOARD | 1.24 | 780,666 |
| 7 | LOCAL AUTHORITY SUPERANNUATION | 0.60 | 378,620 |
| 8 | KCM PENSION TRUST SCHEME | 0.51 | 322,521 |
| 9 | BARCLAYS BANK STAFF PENSION TRUST FUND | 0.44 | 275,446 |
| 10 | MADISON PENSION TRUST FUND | 0.42 | 266,628 |
| | **Total Shares Selected** | **94.81** | **59,731,264** |
| | **Not Selected** | **5.19** | **3,268,736** |
| | **Issued Share Capital** | **100.00** | **63,000,000** |

## Distribution of Shareholders

| Rank | Range | Number of Shareholders | % | Number of Shares |
|---|---|---|---|---|
| 1 | Less than 500 Shares | 510 | 53.01 | 153,139 |
| 2 | 501 - 5,000 | 360 | 37.42 | 662,701 |
| 3 | 5,001 - 10,000 | 27 | 2.81 | 201,631 |
| 4 | 10,001 - 100,000 | 47 | 4.89 | 1,406,117 |
| 5 | 100,001 - 1,000,000 | 12 | 1.25 | 4,211,304 |
| 6 | Over 1,000,000 | 6 | 0.62 | 56,365,108 |
| | | **962** | **100.00** | **63,000,000** |

### CHAIRMAN
Richard Mazombwe*

### DIRECTORS
Ronny Palale*
Vongai Chiwaridzo**
Pearson Gowero**
Etherton Mpisaunga**
Faith Mukutu*
Ackim Chalwe*
Natasha Chiumya*

### COMPANY SECRETARY
Vongai Chiwaridzo

### REGISTERED OFFICE
Plot 1609/10
Sheki Sheki Road
P O Box 35135
Lusaka, Zambia

### LEGAL ADVISORS
Tembo Ngulube & Associates
Plot 34, Manda Hill Road
P. O. Box 37060
Lusaka

### BANKERS
Barclays Bank Zambia Plc
Citibank Zambia Limited
Stanbic Bank Zambia Limited
Standard Chartered Bank Plc

### AUDITOR
Deloitte & Touche
Abacus Square, Stand 2374/B
Thabo Mbeki Rd
Lusaka

### REGISTRARS
Corpserve Transfer Agents Ltd
6 Mwaleshi Road,
Olympia Park
Lusaka

** Zambian ** Zimbabwean*

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## Profile

Incorporated : 1968
Listed : 1998

### Sector
Consumer goods (Beverage Industry)

### Nature of business
Production and distribution of Traditional African Beer (TAB) and pasteurised (TAB)

### Postal address
P O Box 35135, Lusaka, Zambia

### Registered address
Plot 1609/10 Sheki Sheki Road
P O Box 35135 Lusaka, Zambia
Tel: +260 962 249 210

### Auditor
Deloitte & Touche

### Website
www.delta.co.zw

*BBP*
Business and budgeting process.

*Beia*
Before exceptional items and amortisation of acquisition related intangible assets.

*Cash conversion ratio*
Free operating cash flow/Net profit (beia) before deduction of non-controlling interests.

*Depletions*
Sales by distributors to the retail trade.

*Dividend payout*
Proposed dividend as percentage of net profit (beia).

*Earnings per share*
*Basic*
Net profit divided by the weighted average number of shares – basic – during the year.

*Diluted*
Net profit divided by the weighted average number of shares – diluted – during the year.

*EBIT*
Earnings before interest and taxes and net finance expenses.

*EBITDA*
Earnings before interest and taxes and net finance expenses before depreciation and amortisation.

*Effective tax rate*
Income tax expense expressed as a percentage of the profit before income tax, adjusted for share of profit of associates and joint ventures and impairments thereof (net of income tax).

*Eia*
Exceptional items and amortisation of acquisition-related intangible assets.

*Fixed costs*
Fixed costs include personnel costs, depreciation and amortisation, repair and maintenance costs, energy and water, and other fixed costs. Exceptional items are excluded from these costs.

*Free operating cash flow*
This represents the total of cash flow from operating activities, and cash flow from operational investing activities.

*Innovation Rate*
The Innovation Rate is calculated as revenues generated from innovations launched / introduced in the past twelve quarters divided by revenue.

*ISO*
International Standards Organisation.

*MICS*
Minimum Internal Controls Standards.

*Net debt*
Non-current and current interest-bearing loans and borrowings and bank overdrafts less investments held for trading and cash.

*Net debt/EBITDA (beia) ratio*
The ratio is based on a twelve month rolling calculation for EBITDA (beia).

*Net profit*
Profit after deduction of non-controlling interests (profit attributable to equity holders of the Company).

*Organic growth*
Growth excluding the effect of foreign currency translational effects, consolidation changes, exceptional items, amortisation of acquisition-related intangible assets.

*Organic volume growth*
Increase in volume, excluding the effect of the first time consolidation of acquisitions.

*Operating profit*
Results from operating activities.

*Profit*
Total profit of the Company before deduction of non-controlling interests.

*®*
All brand names mentioned in this report, including those brand names not marked by an ®, represent registered trademarks and are legally protected.

*Revenue*
Net realised sales proceeds in Zambian Kwacha.

*TSC*
Target Setting and Cascading.

*Top-line growth*
Growth in net revenue.

*SOX*
Sarbanes-Oxley Act of 2002. An act passed by U.S. Congress in 2002 to protect investors from the possibility of fraudulent accounting activities by corporations. The SOX Act mandated strict reforms to improve financial disclosures from corporations and prevent accounting fraud.

*Volume*
100 per cent of beer volume produced and sold.

*Weighted average number of shares Basic*
Weighted average number of issued shares including the weighted average of outstanding ASDI, adjusted for the weighted average of own shares purchased in the year.

*Diluted*
Weighted average number of issued shares including the weighted average of outstanding ASDI.

*ZBB*
Zero-based Budgeting. A method of budgeting in which all expenses must be justified for each new period. The process of zero-based budgeting starts from a "zero base," and every function within an organization is analyzed for its needs and costs.