

SOLAR EXPLOCHEM ZAMBIA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

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COMPANY INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE	: Zambia
COMPANY REGISTRATION	: L.C.O 79731
TAX PIN	: 1001953671
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	: Manufacturing of explosives and trading in accessories : ISO 9001:2008 Certified
BOARD OF DIRECTORS	: Sydney Chisenga : Suresh Menon : Shaileshkumar Sangrajka : Milind Bhalchandra Deshmukh : Caroline Misodzi : Vennam Tirupathi Reddy
CHIEF OFFICERS	: Mr. C.A.Bensam : Mr.V.T. Reddy
REGISTERED OFFICE	: Plot No. L/38251M : Luano Area : Kitwe-Chingola Road : Copperbelt Province : ZAMBIA
PRINCIPAL PLACE OF BUSINESS	: Plot No. L/38251M : Luano Area : Kitwe-Chingola Road : Copperbelt Province : ZAMBIA : Telephone +260-212-251219
POSTAL ADDRESS	: P. O. Box 22831 Chambeshi Copperbelt ZAMBIA
INDEPENDENT AUDITOR	: PKF Zambia Chartered Accountants
COMPANY SECRETARY	: Messrs Corpus Globe Consultants Limited
PRINCIPAL BANKERS	: Indo Zambia Bank Plc : First National Bank Zambia Limited
SHAREHOLDERS	: Solar Overseas Netherlands Cooperatie UA, incorporated in Netherlands : Ortin Investments Limited, incorporated in U.A.E.

REPORT OF THE DIRECTORS

The Directors submit their report and the audited financial statements for the year ended 31 March 2020, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activity of the company is the manufacturing of explosives and trading in accessories.

BUSINESS REVIEW

Key performance indicators	2020	2019
Revenue (ZMW)	219,763,141	183,182,484
Gross profit (ZMW)	93,229,631	75,372,652
Gross profit margin (%)	42%	41%
Profit for the year (ZMW)	92,480,765	63,284,878
Net profit margin (%)	42%	35%
Net assets (ZMW)	171,649,994	133,738,332
Return on capital employed (%)	128%	137%

SHARE CAPITAL

There were no changes in authorised and issued share capital during the year.

DIVIDEND

The Directors have not recommend for declaration of a dividend for the current year (2019: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of major changes in property, plant and equipment are as follows:

The company purchased fixed assets amounting to ZMW 7,107,768 (2019: ZMW 11,746,906)

HEALTH, SAFETY AND WELFARE OF EMPLOYEES

The company continues to provide and maintain optimum standards of safety and house keeping required for the upkeep of the health and safety of employees.

EVENTS AFTER THE REPORTING PERIOD

The directors are aware of COVID 19 pandemic which is a material event which occurred after the reporting period. It is a non adjusting event as it took place after the reporting period. The directors have assessed its effect on the business and have taken adequate measures to ensure that the Company remains a going concern.

REPORT OF THE DIRECTORS (CONTINUED)

GOING CONCERN

The Directors of the company believe that Solar Explochem Zambia Limited will continue to operate as going concern from the end of reporting date, that is, 31 March 2020. Solar Explochem Zambia Limited has been operational for over 10 years and has generally been a profitable business resulting in excess cash flow. This has enabled the company to be liquid enough to see it through the difficult time of the COVID 19 pandemic.

DIRECTORS

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

INDEPENDENT AUDITOR

The Company's auditor during the year was PKF Zambia Chartered Accountants. They have indicated willingness to continue in office in accordance with the Zambian Companies Act of 2017.

BY ORDER OF THE BOARD



DIRECTOR

21/06/ 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Zambia Companies Act of 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 profit or loss for that year. It also requires the Directors to ensure that the Company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. The Directors are safeguarding the assets of the Company.


The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

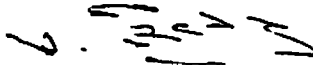
The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company as at 31 March 2020 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard and the requirements of the Zambian Companies Act of 2017.

Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

Approved by the Board of Directors on21/06/2020..... and signed on its behalf by:



DIRECTOR



DIRECTOR

Report of the Independent auditor to the members of Solar Explochem Zambia Company Limited

Opinion

We have audited the financial statements of Solar Explochem Zambia Limited, which comprise the statement of financial position as at 31 March 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 March 2020, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard and 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 company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Zambia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

The Key Audit Matters identified as per ISA 701 are the following;

1. Allowance for doubtful receivables

Included in trade and other receivables are receivables of ZMW 11.3 million from customers. (The disclosure associated with impairment in receivables is set out in the following notes: note 1 use of estimates and judgments, note 14 trade receivables, and note 22 (b) credit risk) Management have applied significant judgment in estimating the amount and timing of cash flows, using key assumptions based on historical payment behaviour. Adverse economic conditions, such as liquidity constraints on the market, worsened during the year due to tightened monetary policy which significantly impacted the recoverability of trade receivables. Management has assessed the impairment of trade receivables by making estimates and judgments about the amount and the timing of cash flows based on historical payment behaviour. Due to the significance of the impairment on the receivables and the estimation and judgment involved, this matter is considered to be a key audit matter.

Description of how the matters were addressed in the audit

1. We performed the following procedures, among others: We tested the relevant controls over:
- Management's approval of Foreign customer credit policies;
 - The impairment process, including controls over trade receivables both collectively and specifically provided for;
 - Monitoring of debit notes issued (i.e. early identification of impaired accounts and approval of manual impairments/write-offs). For specific impairment:

Report of the independent auditor to the members of Solar Explochem Zambia Limited (continued)

- We evaluated the expected cash flows on contracts with uncertain payments based on agreed payment plans with customers and vouched to subsequent receipts. For collective impairment:
- We evaluated the arrears monitoring process, through monitoring credit trends in the portfolio, to assess whether emerging trends are reflected in the impairment provision.
- We considered the appropriateness of accounting policies and assessed the receivable impairment methodologies across the Company in comparison to the requirements of International Financial Reporting Standards (IFRS).

Other information

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

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

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

Responsibilities of Directors for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report of the independent auditor to the members of Solar Explochem Zambia Limited (continued)

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

We also provide those charged with governance 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

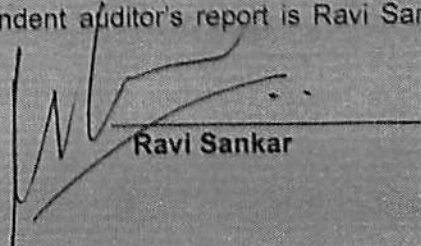
Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 2017 we report to you, based on our audit, that:

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

The engagement partner responsible for the audit resulting in this independent auditor's report is Ravi Sankar Pratisising certificate No. P/No. AUD/F000337.

PKF Zambia
Chartered Accountants


Ravi Sankar

Date: 27-6-2020
REF: RR/S007N/N026/2019

PKF Zambia
Chartered Accountants
P O Box 70999, Naala, Zambia

Solar Explochem Zambia Limited
Annual Report and Financial statements
For the year ended 31 March 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHESIVE INCOME

	Notes	2020 ZMW	2019 ZMW
Revenue	3	219,763,141	183,182,484
Cost of sales		<u>(126,533,510)</u>	<u>(107,809,832)</u>
Gross profit		93,229,631	75,372,652
Other income	4	48,349,047	13,239,499
Administrative expenses		(32,274,975)	(13,600,267)
Other operating expenses		<u>(16,179,781)</u>	<u>(10,983,960)</u>
Operating profit	5	93,123,922	64,027,924
Finance costs	6	<u>(643,157)</u>	<u>(743,046)</u>
Profit before tax		92,480,765	63,284,878
Tax charge	7	<u>(19,524,798)</u>	<u>(11,480,820)</u>
Profit for the year		<u><u>72,955,967</u></u>	<u><u>51,804,058</u></u>
Total comprehensive Income for the year		<u><u>72,955,967</u></u>	<u><u>51,804,058</u></u>

The notes on pages 12 to 35 form an integral part of these financial statements.

Report of the independent auditor - pages 5 and 7.

Solar Explochem Zambia Limited
Annual Report and Financial statements
For the year ended 31 March 2020

STATEMENT OF CHANGES IN EQUITY

	Notes	Ordinary Share Capital ZMW	Share premium ZMW	Retained income ZMW	Total equity ZMW
Year ended 30 March 2020					
At start of year		39,413	7,833,237	141,311,893	132,568,812
Total comprehensive income for the year:					
- Profit for the year		-	-	72,955,967	72,955,967
At end of year		<u>39,413</u>	<u>7,833,237</u>	<u>214,267,860</u>	<u>205,524,779</u>
Year ended 31 March 2019					
At start of year		39,413	7,833,237	84,322,725	75,579,645
Tax adjustment*		-	-	5,185,110	5,185,110
Total comprehensive income for the year:					
- Profit for the year		-	-	51,804,058	51,804,058
Proposed dividend		-	-	-	-
At end of year		<u>39,413</u>	<u>7,833,237</u>	<u>141,311,893</u>	<u>132,568,812</u>

* This refers to the prior year tax charge which was overcharged and now reversed after obtaining a tax refund from Zambia Revenue Authority

The notes on pages 12 to 35 form an integral part of these financial statements.

Report of the independent auditor - pages 5 and 8.

STATEMENT OF FINANCIAL POSITION

	Notes	2020 ZMW	2019 ZMW
EQUITY			
Share capital	9	39,413	39,413
Share premium	9	7,833,237	7,833,237
Retained earnings		<u>214,267,860</u>	<u>141,311,893</u>
Equity attributable to owners of the company		<u>222,140,510</u>	<u>149,184,543</u>
Non-current liabilities			
Deferred tax	12	7,142,302	2,520,503
Provisions	17	<u>564,944</u>	<u>240,607</u>
		<u>7,707,246</u>	<u>2,761,110</u>
		<u>229,847,756</u>	<u>151,945,653</u>
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	11	26,680,553	23,832,907
Investment	17	<u>25,200</u>	<u>-</u>
		<u>26,705,753</u>	<u>23,832,907</u>
Current assets			
Inventories	13	69,009,601	41,506,109
Trade and other receivables	14	188,085,288	96,794,910
Cash and cash equivalents	15	<u>4,244,876</u>	<u>8,019,048</u>
		<u>261,339,765</u>	<u>146,320,067</u>
Current liabilities			
Borrowings	10	18,619,495	-
Current tax payable		6,307,273	2,138,177
Trade and other payables	16	33,239,595	16,033,266
Provisions	17	<u>31,399</u>	<u>35,878</u>
		<u>58,197,762</u>	<u>18,207,321</u>
Net current assets		<u>203,142,003</u>	<u>128,112,746</u>
		<u>229,847,756</u>	<u>151,945,653</u>

The financial statements on pages 8 to 35 were approved and authorised for issue by the Board of Directors on 21/06/20 2020 and were signed on its behalf by:

 DIRECTOR

 DIRECTOR

The notes on pages 12 to 35 form an integral part of these financial statements.

Report of the independent auditor - pages 5 and 7.

STATEMENT OF CASH FLOWS

	Notes	2020 ZMW	2019 ZMW
Cash flows from operating activities			
Profit/(loss) before tax		92,480,765	63,284,878
Adjustments for:			
Depreciation on property, plant and equipment	11	4,226,694	2,587,075
Interest expense	6	643,157	743,046
Changes in working capital:			
- inventories		(27,503,492)	(17,596,455)
- trade and other receivables		(91,290,378)	(41,086,299)
- trade and other payables		17,206,329	13,352,076
Tax paid		<u>(10,733,904)</u>	<u>(12,736,649)</u>
Net cash from/(used in) operating activities		<u>(14,970,829)</u>	<u>8,547,672</u>
Cash flows from investing activities			
Proceed on asset disposed		328,086	37,272
Cash paid for purchase of property, plant and equipment	11	<u>(7,107,768)</u>	<u>(11,746,906)</u>
Net cash from/(used in) investing activities		<u>(6,779,682)</u>	<u>(11,709,634)</u>
Cash flows from financing activities			
Proceeds from:			
- borrowings		18,619,495	(9,302,962)
Interest paid		(643,157)	(743,046)
Dividends paid:			
- ordinary shareholders		<u>-</u>	<u>-</u>
Net cash (used in) financing activities		<u>17,976,338</u>	<u>(10,046,008)</u>
Increase in cash and cash equivalents		<u><u>(3,774,173)</u></u>	<u><u>(13,207,970)</u></u>
Movement in cash and cash equivalents			
At start of year		8,019,048	21,227,019
Increase/(decrease)		<u>(3,774,173)</u>	<u>(13,207,970)</u>
At end of year	15	<u><u>4,244,875</u></u>	<u><u>8,019,048</u></u>

The notes on pages 12 to 35 form an integral part of these financial statements.

Report of the independent auditor - pages 5 and 7.

NOTES

1. SIGNIFICANT ACCOUNTING POLICIES

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

These financial statements comply with the requirements of the *Zambian Companies Act, 2017*. The statement of profit or loss and statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

a) Basis of preparation

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

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

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

Transfer between levels of the fair value hierarchy are recognised by the directors at the end of the reporting period during which the change occurred.

Going concern

The financial performance of the Company is set out in the report of the directors and in the statement of profit or loss. The financial position of the Company is set out in the statement of financial position. Disclosures in respect of principal risks and uncertainties are included within the report of the directors. A highly infectious virus, COVID 19, was discovered and announced towards the end of December 2019. In early 2020, this disease had spread to most parts of the world. Europe, America and Asia where a number of the Company's customer come from, have been significantly impacted. Governments across the world, including in Europe, America, Asia and Zambia, have put in place a number of measures and restrictions aimed to curb the spread and impact of this virus. These measures have resulted in disruption of the Company's activities. As of the date of issuing these financial statements, the period over which the outbreak and the related restrictions will continue for is uncertain. The directors have prepared cash flow projections that consider multiple scenarios and have considered the Company's cash requirements over such scenarios. The directors are of the opinion that the Company has sufficient access to funds, including inflows expected from commitments of financial support from its shareholders, to cover its liquidity requirements over the projected period. The directors anticipate that the business and cash generation will return to normal subsequent to the projected period. The directors have prepared the financial statements on a going concern basis based on the above cash flow projection models, current availability of funds, commitments of continued financial support from the shareholders and in expectation of a return to normal trading conditions at the end of the projected period. However, the possibility of the current situation persisting beyond the projected period represents a material uncertainty that may cast doubt on the Company's ability to continue as a going concern.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New and amended standards adopted by the company

All new and amended standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2018 have been adopted by the company. Of those, the following have an effect on the company's financial statements:

New standards, amendments and interpretations adopted by the company

The following, which became effective from 1 January 2019, have been adopted but have not had a significant impact on the company's financial statements.

- Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.
- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.
- Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' effective for annual periods beginning on or after 1 January 2019 clarifying that IFRS 9 is only applicable to investments to which the equity method is not applied.
- Amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' effective for annual periods beginning on or after 1 January 2019 in relation to remeasurement of previously held interests on a joint operation on obtaining control.
- Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amortised cost classification.
- Amendments to IFRS 11 'Joint Arrangements' effective for annual periods beginning on or after 1 January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these consolidated financial statements the following standards and interpretations, which have not been applied in these consolidated financial statements, were in issue but not yet effective for the year presented:

- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued in September 2014) applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.
- IFRS 17 'Insurance Contracts' (issued in May 2017) effective for annual periods beginning on or after 1 January 2021 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The company does not issue insurance contracts.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New and amended standards adopted by the company (continued)

IFRS 15: Revenue from contracts with customers

Under IFRS 15, revenue from sale of goods is recognised when the customer obtains control of the goods. Revenue from sales of services is recognised over time provided the consumption of the service by the customer is simultaneous with the performance of the service by the Company. The application of the standard, retrospectively, in the current year has not had a material impact on the financial position or financial performance of the company, and a prior period adjustment has, therefore, not been required. However, minor changes in presentation have been necessary, including the separate presentation of contract assets and contract liabilities, which were previously presented net as 'work-in-progress'.

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented:

- Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.
- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.
- Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' effective for annual periods beginning on or after 1 January 2019 clarifying that IFRS 9 is only applicable to investments to which the equity method is not applied.
- Amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' effective for annual periods beginning on or after 1 January 2019 in relation to remeasurement of previously held interests on a joint operation on obtaining control.
- Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amortised cost classification.
- IFRS 16 'Leases' (issued in January 2017) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

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

- IFRS 17 'Insurance Contracts' (issued May 2017) effective for annual periods beginning on or after 1 January 2022 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

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

b) Critical accounting estimates and judgement

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- Measurement of expected credit losses (ECL):

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD).

The ECL model applied for financial assets other than trade receivables and contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

b) Critical accounting estimates and judgement (continued)

- Measurement of Expected Credit Losses (ECL) (continued):

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.
- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Assessment of significant increase in credit risk: The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The group uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions

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

- Useful lives of property and equipment and intangible assets

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

c) Revenue recognition

The company recognises revenue from direct sales of explosives and from contracts for the supply of explosive accessories. The company recognises revenue as and when it satisfies a performance obligation by transferring control of a product or service to a customer. The amount of revenue recognised is the amount the Company expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties, such as Value Added Tax.

Other income

- i) Interest income is accrued by reference to time in relation to the principal outstanding and the effective interest rate applicable.
- ii) Dividend income is recognised when the shareholders right to receive payment has been established. The company currently has no equity investments.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Translation of foreign currencies

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain future foreign currency risks which meet the criteria for hedge accounting which are recognised in the other comprehensive income; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

e) Property, plant and equipment

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

Freehold and leasehold land, buildings and plant and machinery are subsequently shown at market value, based on periodic valuations less subsequent depreciation.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. Decreases that offset previous increases of the same asset are charged to other comprehensive income; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the retained earnings to revaluation reserve.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property, plant and equipment (continued)

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

Freehold land is not depreciated.

Leasehold land is depreciated over the remaining period of the lease.

Depreciation on all other assets is calculated on straight line method to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life using the following annual rates:

	<u>Rate %</u>
Buildings	5
Plant and machinery	20
Furniture and fittings	10
Motor vehicles	20
Computer equipment	20
Electrical installation	10

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

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

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings in the statement of changes in equity.

f) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be 5 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development staff costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives which are estimated to be 5 years.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial instruments

Financial instruments are recognised when, and only when, the company becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale.

- Financial assets

The company classifies its financial assets into the following categories:

i) Amortised cost;

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

ii) Fair Value Through Other Comprehensive Income (FVTOCI):

Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are classified and measured at value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

iii) Fair Value Through Profit or Loss (FVTPL):

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement.

Notwithstanding the above, the group may:

- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it **at fair value through other comprehensive income**
- on initial recognition of a debt instrument, irrevocably designate it as classified and measured **at fair value through profit or loss** if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

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

Derecognition/write off

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

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial instruments (continued)

- Financial assets (continued)

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

Impairment

The company recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI):

- Cash and cash equivalents
- Trade and other receivables
- Other financial assets

No impairment loss is recognised on investments measured at FVTPL.

The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the balance sheet date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

- Financial liabilities

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at **fair value through profit or loss**. The company may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial instruments (continued)

- Financial liabilities (continued)

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

- Offsetting financial instruments

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

h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out (FIFO) method. 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), but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

i) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and financial assets with maturities of less than 91 days, net of bank overdrafts and money market lines.

Restricted cash balances are those balances that the company cannot use for working capital purposes as they have been placed as a lien to secure borrowings.

In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

j) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

k) Dividends

Proposed dividends are disclosed as a separate component of equity until declared.

Dividends are recognised as a liabilities in the period in which they are approved by the company's shareholders.

l) Taxation

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

Current tax

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

NOTES (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Taxation (continued)

Deferred tax

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

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recoverable entirely through sale unless presumption is rebutted. The presumption is rebutted when the investment property is depreciable and held within a business model whose objective is to consume substantially all its economic benefits embodied in it over time rather than through sale.

m) Accounting for leases

The company as lessee

Leases of assets where the company assumes substantially all the risks and rewards of ownership, are classified as finance leases.

Assets held under finance leases are initially recognised as assets of the company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the company's general policy on borrowing costs (see note o above). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Such property, plant and equipment is depreciated over its useful life.

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively 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. Lease incentives received are recognised as a liability and reduction of the rental expense on a straight line basis.

n) Employee entitlements

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

o) Borrowing costs

Borrowing costs that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset based either on actual cost on specific borrowings or, in the case of general borrowings, based on a weighted average cost.

Capitalisation of borrowing costs ceases when all activities necessary to prepare the asset for its intended use or sale are complete. All other borrowing costs are recognised in profit or loss.

p) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. However, the comparatives in these financial statements were not audited by us.

NOTES (CONTINUED)

	2020	2019
	ZMW	ZMW
3. Revenue		
Revenue from domestic sale of goods	131,536,419	141,888,438
Revenue from export sale of goods	<u>88,226,722</u>	<u>41,294,046</u>
	<u>219,763,141</u>	<u>183,182,484</u>
4. Other income		
	2020	2019
	ZMW	ZMW
Profit on exchange differences	42,909,824	12,583,034
Other income	-	61,275
Insurance claims	408,970	106,000
Interest earned	62,102	489,190
Discount Received	<u>4,968,151</u>	<u>-</u>
	<u>48,349,047</u>	<u>13,239,499</u>
5. Operating profit/(loss)		
The following items have been charged/(credited) in arriving at operating profit/(loss):		
Depreciation on property, plant and equipment	4,226,694	2,587,075
Auditors' remuneration		
- current year	303,552	252,986
Exchange differences	33,427	-
Staff costs	<u>4,968,610</u>	<u>3,508,320</u>
	<u>4,226,694</u>	<u>2,587,075</u>
6. Finance costs		
Interest expense:		
- loans	-	343,423
- other interest charges - Bank	<u>643,157</u>	<u>399,623</u>
	<u>643,157</u>	<u>743,046</u>
7. Tax		
Current tax	14,903,000	9,678,516
Deferred tax charge/(credit) (Note 13)	<u>4,621,798</u>	<u>1,802,304</u>
Tax charge/(credit)	<u>19,524,798</u>	<u>11,480,820</u>

NOTES (CONTINUED)

8. Tax (continued)	2020 ZMW	2019 ZMW
The tax on the Company's profit/(loss) before tax differs from the theoretical amount that would arise using the basic rate as follows:		
Profit before tax	<u>92,480,765</u>	<u>63,284,878</u>
Tax calculated at a tax rate of 17.5% (2019: 35%) ZDA tax incentives	16,184,134	11,074,854
Tax effect of:		
- expenses not deductible for tax purposes	3,896,137	4,160,486
- expenses deductible for tax purposes	<u>(1,300,288)</u>	<u>(8,700,484)</u>
Tax charge	<u>18,779,983</u>	<u>6,534,855</u>
Tax charged to:		
Balance at the beginning of the year	2,138,177	10,381,420
Current tax for the year recognised in profit or loss	14,903,000	9,678,516
Tax overpaid in the previous year	-	(5,185,110)
Tax paid	<u>(10,733,904)</u>	<u>(12,736,649)</u>
Balance at period end	<u>6,307,273</u>	<u>2,138,177</u>
9. Share capital		
Authorised:		
39,413 (2019: 39,413) ordinary shares of ZMW 1 each	<u>39,413</u>	<u>39,413</u>
Issued and fully paid:		
39,413 (2019: 39,413) ordinary shares of ZMW 1 each	39,413	39,413
Share premium	<u>7,833,237</u>	<u>7,833,237</u>
	<u>7,872,650</u>	<u>7,872,650</u>
10. Borrowings		
First National Bank	<u>18,619,495</u>	<u>-</u>
	<u>18,619,495</u>	<u>-</u>

First National Bank facility

The Company has a USD2 million overdraft facility with First National Bank that is subject to review on 31 May 2019, and is secured by:

- First mortgage debenture (covers land plus movable including debtors) over Lot 38251 Chambishi, Copperbelt, Zambia;
- Valuation dated 25 November 2013 conducted by Bitrust Real Estate detailed as: Land & Building valued at USD1,214,545.46; moveable assets valued at USD3,043,973 (control panel, pumps, air compressor, silos, laboratory equipment, folk lift, chilling unit, cooling tower, water condensation tank, jet mixer, KP machine, crumbing machine & motor vehicles);
- Mortgage debenture includes stock comprising raw materials and finished goods valued at USD1,096,288.12 as at 30 November;
- Cession of receivables, good debtors less than 90 days old valued at UAS1,712,184 as at 30
- Letter of comfort from parent Company, Solar Industries India Ltd; and
- First legal mortgage over 20 Hectare property (adjacent to Lot 38251 and to be notarially tied).

NOTES (CONTINUED)

11. Property, plant and equipment

Year ended 30 March 2020

	Land ZMW	Buildings ZMW	Plant and machinery ZMW	Furniture, fixture and equipment ZMW	Motor Vehicles ZMW	Office equipment ZMW	Computers ZMW	Electrical installation ZMW	Capital work in progress ZMW	Total ZMW
Cost										
At start of year	284,848	10,024,718	17,466,731	192,998	16,004,619	55,641	243,856	1,899,171	5,928,003	52,100,585
Additions	-	-	-	-	-	-	-	-	7,107,768	7,107,768
Transfer	3,686,244	44,954	638,643	13,449	7,727,682	-	216,920	-	(12,327,892)	-
At end of year	3,971,092	10,069,672	18,105,374	206,447	23,732,301	55,641	460,776	1,899,171	707,879	59,208,353
Comprising										
Cost	3,971,092	10,069,672	18,105,374	206,447	23,732,301	55,641	460,776	1,899,171	707,879	59,208,353
Valuation	-	-	-	-	-	-	-	-	-	-
	3,971,092	10,069,672	18,105,374	206,447	23,732,301	55,641	460,776	1,899,171	707,879	59,208,353
Depreciation										
At start of year	-	3,014,707	16,154,686	112,729	7,507,686	50,660	153,470	1,273,740	-	28,267,678
Charge for the year	33,427	502,712	544,222	19,840	2,917,534	1,458	51,012	189,917	-	4,260,122
At end of year	33,427	3,517,419	16,698,908	132,569	10,425,220	52,118	204,482	1,463,657	-	32,527,800
Net book value										
As at 31 March 2020	3,937,665	6,552,253	1,406,466	73,878	13,307,081	3,523	256,294	435,514	707,879	26,680,553
As at 31 March 2019	284,848	7,010,011	1,312,045	80,269	8,496,933	4,981	90,386	625,431	5,928,003	23,832,907

NOTES (CONTINUED)

12. Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 17.5% (2018: 35%). The movement on the deferred tax account is as follows:

	2020 ZMW	2019 ZMW
At start of year	2,520,503	718,199
Charge/(credit) to profit or loss (Note .7)	<u>4,621,799</u>	<u>(1,802,304)</u>
At end of year	<u><u>7,142,302</u></u>	<u><u>2,520,503</u></u>

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

	At start of year ZMW	Charge/ (credit) to profit or loss ZMW	At end of year ZMW
Deferred tax liabilities			
Property, plant and equipment			
- accelerated tax depreciation	<u>3,206,177</u>	<u>- 1,961,794</u>	<u>1,244,382</u>
	<u>3,206,177</u>	<u>(1,961,794)</u>	<u>1,244,382</u>
Deferred tax assets			
Other timing differences	<u>685,674</u>	<u>5,197,600</u>	<u>5,883,273</u>
	<u>685,674</u>	<u>5,197,600</u>	<u>5,883,273</u>
Net deferred tax liability/(asset)	<u><u>2,520,503</u></u>	<u><u>4,607,153</u></u>	<u><u>7,127,656</u></u>

13. Inventories

	2020 ZMW	2019 ZMW
Raw materials, Goods in Transit and components	43,224,369	31,118,023
Goods-in-transit	11,015,306	1,969,295
Work-in-progress	93,750	106,875
Finished and Traded goods	12,265,719	5,932,543
Consumables, maintenance spares and electrical spares	<u>2,410,457</u>	<u>2,379,373</u>
	<u><u>69,009,601</u></u>	<u><u>41,506,109</u></u>

NOTES (CONTINUED)

14. Trade and other receivables	2020	2019	
	ZMW	ZMW	
Trade receivables	162,044,997	87,700,123	
Less: impairment provisions	(11,330,031)	(2,708,500)	
Net trade receivables	150,714,966	84,991,623	
Advances from suppliers	3,795,488	9,694,270	
Employee costs in advance	767,844	252,221	
Other receivables	145,682	114,855	
Loan/advance to related parties (Note 18(iv))	12,542,434	-	
Receivable from related parties (Note 18 (iii))	20,118,874	1,741,941	
	<u>188,085,288</u>	<u>96,794,910</u>	
15. Cash and cash equivalents	2020	2019	
	ZMW	ZMW	
Cash at bank and in hand	<u>4,244,876</u>	<u>8,019,048</u>	
For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the following:			
	2020	2019	
	ZMW	ZMW	
Cash in hand	148,887	70,707	
Cash at bank	<u>4,095,989</u>	<u>7,948,341</u>	
	<u>4,244,876</u>	<u>8,019,048</u>	
16. Trade and other payables	2020	2019	
	ZMW	ZMW	
Trade payables	10,713,112	3,307,335	
Amounts received in advance	568,464	852,661	
Statutory liabilities	278,852	125,080	
VAT payable	122,319	155,784	
Other payables	572,641	933,151	
Amount due to related parties (Note 18 (iii))	20,984,207	10,659,255	
	<u>33,239,595</u>	<u>16,033,266</u>	
17. Provisions	Other provision	Gratuity and long service	Total
	ZMW	ZMW	ZMW
At start of year	35,878	240,607	276,485
Additional provisions during the year	-	324,337	324,337
Utilised during the year	(4,479)	-	(4,479)
At end of year	<u>31,399</u>	<u>564,944</u>	<u>596,343</u>

NOTES (CONTINUED)

18. Related party transactions and balances

The payments to related party's are interest free, unsecured and have no specific repayment dates.

	2020	2019
	ZMW	ZMW
i) Purchases of goods and services from related party's.		
Economic Explosives Limited	21,265,648	22,566,436
Solar Industries India Limited	35,669,889	16,156,112
Nigachem Nigerial Limited	-	62,716
Solar Mining Services India Limited	<u>28,973,978</u>	<u>34,132,000</u>
	<u><u>85,909,516</u></u>	<u><u>72,917,264</u></u>
ii) Sale of goods and services from related party's.		
Laghe Venture Limited	16,271,364	-
Solar Mining Services India Limited	<u>5,724,447</u>	<u>1,477,325</u>
	<u><u>21,995,811</u></u>	<u><u>1,477,325</u></u>
iii) Outstanding balances arising from sale and purchase of goods/services		
	2020	2019
	ZMW	ZMW
Receivables from related parties		
Laghe Venture Limited	18,199,181	-
Solar Mining Services Limited	<u>1,919,693</u>	<u>1,741,941</u>
	<u><u>20,118,874</u></u>	<u><u>1,741,941</u></u>
iv Loan/advances		
Solar Mining Services Limited	11,065,534	-
Solar Nitro Chemicals Limited	<u>1,476,900</u>	<u>-</u>
	<u><u>12,542,434</u></u>	<u><u>-</u></u>

The receivables from related parties are interest rate of 10%, have no specific dates of repayment and are unsecured.

Payable to related parties

Economic Explosives Limited	14,340,856	8,990,137
Solar Industries India Limited	<u>6,643,351</u>	<u>1,669,117</u>
	<u><u>20,984,207</u></u>	<u><u>10,659,255</u></u>

The payables to related parties are interest free, have no specific dates of repayment and are unsecured.

iv) Key management personnel compensation

Short term employee benefits
Post employment benefits

No provision has been required in 2020 and 2019 for the loans made to key management personnel and associates.

NOTES (CONTINUED)

22. Risk management objectives and policies

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, 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 the company's financial performance.

Risk management is carried out by the management under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and investment of excess liquidity.

(a) Market risk

- Foreign exchange risk

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

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

(b) Credit risk

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

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

In assessing whether the credit risk on a financial asset has increased significantly, the company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For these purpose default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

NOTES (CONTINUED)

22. Risk management objectives and policies (continued)

(b) Credit risk (continues)

If the company does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the company groups financial assets on the basis of shared credit risk characteristics, such as:

- type of instrument;
- industry in which the debtor operates; and
- nature of collateral.

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

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

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date was as follows:

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses (see note below)			Total
		a)	b)	c)	
As at 31 March 2020	ZMW	ZMW	ZMW	ZMW	ZMW
Trade receivables	162,044,997	-	-	-	162,044,997
Other receivables	4,709,014	-	-	-	4,709,014
Receivables from related parties	32,661,308	-	-	-	32,661,308
Cash at bank	4,244,876	-	-	-	4,244,876
Gross carrying amount	203,660,195				203,660,195
Loss allowance		(11,330,031)	-	-	(11,330,031)
Exposure to credit risk	203,660,195	(11,330,031)	-	-	192,330,164

NOTES (CONTINUED)

22. Risk management objectives and policies (continued)

(b) Credit risk (continued)

Basis for measurement of loss allowance	12-month expected credit losses ZMW	Lifetime expected credit losses (see note below)			Total ZMW
		a) ZMW	b) ZMW	c) ZMW	
As at 31 March 2019	ZMW	ZMW	ZMW	ZMW	ZMW
Trade receivables	87,700,123				87,700,123
Other receivables	10,061,346				10,061,346
Related parties	1,741,941				1,741,941
Cash at bank	8,019,048				8,019,048
Gross carrying amount	107,522,458	-	-	-	107,522,458
Loss allowance	-	(2,708,500)			(2,708,500)
Exposure to credit risk	107,522,458	(2,708,500)	-	-	104,813,958

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

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

The age analysis of the trade receivables at the end of each year was as follows:

	Not past due ZMW	30 to 90 days past ZMW	90 to 180 days past ZMW	Over 180 days past ZMW	Total ZMW
As at 31 March 2020	13,321,660	19,644,614	16,715,886	112,362,837	162,044,996
As at 31 March 2019	27,292,589	14,905,705	32,980,154	12,521,675	87,700,123

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

Basis for measurement of loss allowance	12-month expected credit losses ZMW	Lifetime expected credit losses (see note below)			Total ZMW
		a) ZMW	b) ZMW	c) ZMW	
Year ended 31 March 2020	ZMW	ZMW	ZMW	ZMW	ZMW
At start of year	-	(2,708,500)	-	-	(2,708,500)
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses		(8,621,531)	-	-	(8,621,531)
Changes because of financial assets that were written off during the year	-	-	-	-	-
Other changes	-	-	-	-	-
At end of year	-	#####	-	-	(11,330,031)

NOTES (CONTINUED)

22. Risk management objectives and policies (continued)

(b) Credit risk (continued)

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses (see note below)			Total ZMW
		a)	b)	c)	
Year ended 31 March 2019	ZMW	ZMW	ZMW	ZMW	ZMW
At start of year	-	-	-	-	-
Changes relating to assets					
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	-	(2,708,500)	-	-	(2,708,500)
Changes because of financial assets that were written off during the year	-	-	-	-	-
Other changes	-	-	-	-	-
At end of year	-	(2,708,500)	-	-	(2,708,500)

The loss allowances at the end of each year relate to the following;

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses (see note below)			Total ZMW
		a)	b)	c)	
As at 31 March 2020	ZMW	ZMW	ZMW	ZMW	ZMW
Trade receivables (all related to contracts with customers)	(11,330,031)	-	-	-	(11,330,031)
Total	(11,330,031)	-	-	-	(11,330,031)

As at 31 March 2019	12-month expected credit losses	Lifetime expected credit losses (see note below)			Total ZMW
		a)	b)	c)	
	ZMW	ZMW	ZMW	ZMW	ZMW
Trade receivables (all related to contracts with customers)	(2,708,500)	-	-	-	(2,708,500)
Total	(2,708,500)	-	-	-	(2,708,500)

The company does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due receivables.

NOTES (CONTINUED)

2: Risk management objectives and policies (continued)

(c) Liquidity risk

Cash flows forecasting is performed by the finance department of the company by monitoring the company liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the group's management maintains flexibility in funding by maintaining availability under committed credit lines.

A disclosure of the undrawn facilities is as per Note 12. This is the company's liquidity reserve.

Notes 10 and 18 disclose the maturity analysis of borrowings and trade and other payables.

The table below discloses the undiscounted maturity profile of the company's financial liabilities:

	Interes: rate %age	Between 1 - 3months ZMW	Between 3 months - 1 year ZMW	Between 1 - 5 years ZMW	More than 5 years ZMW	Total ZMW
Year ended 31 March 2020						
Interest bearing liabilities						
- Trade and other payables			-	-	-	-
- Borrowings		18,619,495				18,619,495
Non-interest bearing liabilities						
- Trade and other payables		33,239,595	-	-	-	33,239,595
- Borrowings		-				-
		51,859,090	-	-	-	51,859,090

	Interes: rate %age	Between 1 - 3months ZMW	Between 3 months - 1 year ZMW	Between 1 - 5 years ZMW	More than 5 years ZMW	Total ZMW
Year ended 31 March 2019						
Interest bearing liabilities						
- Trade and other payables		-	-	-	-	-
- Borrowings		-	-	-	-	-
Non-interest bearing liabilities						
- Trade and other payables		16,033,266	2,424	13,621	-	16,049,311
- Borrowings		-	-	-	-	-
		16,033,266	2,424	13,621	-	16,049,311

NOTES (CONTINUED)

23. Capital management

Internally imposed capital requirements

The company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk;
- to comply with the capital requirements set out by the company's bankers;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong asset base to support the development of business.
- to maintain an optimal capital structure to reduce the cost of capital.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistently with others in the industry, the company monitors capital on the basis of the gearing/xxx ratio. This ratio is calculated as net debt divided capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Capital comprises all components of equity (i.e. share capital, share premium, other reserves retained earnings, and revaluation surplus).

During 2020, the company's strategy, which was unchanged from 2019, was to maintain the gearing ratio at the lower end of the range to (debt equity ratio), in order to secure access to finance at a reasonable cost.

The gearing ratios at 31 March 2020 and 2019 were as follows:

	2020	2019
	ZMW	ZMW
Total borrowings (Note 12)	18,619,495	-
Less cash and cash equivalents (Note 29)	<u>4,244,876</u>	<u>8,019,048</u>
Net debt	<u>14,374,619</u>	<u>(8,019,048)</u>
Total equity	<u>222,140,510</u>	<u>149,184,543</u>
Gearing ratio	<u>6%</u>	<u>-5%</u>

24. Incorporation

Solar Explochem Zambia Limited is incorporated in Zambia under the Companies Act as a private limited liability company.

25. Period of reporting

The financial statements have been prepared for a period of 12 months/ 12months,

MANUFACTURING ACCOUNT

	2020	2019
	ZMW	ZMW
1. COST OF SALES		
Cost of raw and packing materials consumed (1.1)	118,735,606	101,438,425
Production costs (1.2)	7,660,159	6,396,357
Changes in finished goods and semi finished goods	<u>137,745</u>	<u>(24,950)</u>
TOTAL COST OF SALES	<u>126,533,510</u>	<u>107,809,832</u>
1.1) COST OF RAW AND PACKING MATERIALS CONSUMED		
Opening stock	33,604,271	18,167,515
Purchases	139,371,010	116,875,181
Closing stock	<u>(54,239,675)</u>	<u>(33,604,271)</u>
TOTAL COST OF RAW AND PACKING MATERIALS CONSUMED	<u>118,735,606</u>	<u>101,438,425</u>
1.2) PRODUCTION COSTS		
Salaries and wages	3,401,017	3,058,365
Vehicle running and maintenance	1,363,223	723,424
Factory expenses	1,157,038	870,677
Petrol, gas and oil	1,198,086	926,049
Repairs and maintenance	<u>540,795</u>	<u>817,842</u>
TOTAL PRODUCTION COSTS	<u>7,660,159</u>	<u>6,396,357</u>

SCHEDULE OF OTHER OPERATING EXPENDITURE

	2020	2019
	ZMW	ZMW
2. ADMINISTRATIVE EXPENSES		
Employment:		
Salaries and wages	1,573,282	1,021,269
Staff welfare	247,048	290,493
Gratuity	610,644	220,174
Staff training expenses	38,535	50,560
Statutory expenses	2,184,358	1,693,808
Other staff costs	314,743	232,016
	<u>4,968,610</u>	<u>3,508,320</u>
Total employment costs		
Other administrative expenses:		
Advertising and sales promotion	538,034	1,123,067
Audit fees		
- Current year	303,552	252,986
Postages and telephones	206,800	163,677
Printing and stationery	114,998	117,439
Computer expenses	299,874	351,265
Legal and professional fees	6,234,659	982,007
Consumption of consumables	513,271	412,166
Management fees	5,191,254	-
Bank charges and commissions	268,103	358,988
Outward Delivery Freight charges	4,298,324	3,585,558
Bad debts written off	8,621,531	2,708,500
Office expenses	715,965	36,294
	<u>27,306,365</u>	<u>10,091,947</u>
Total other administrative expenses.		
Total administrative expenses.	<u><u>32,274,975</u></u>	<u><u>13,600,267</u></u>

SCHEDULE OF OTHER OPERATING EXPENDITURE (CONTINUED)

3. Other operating expenses	2020 ZMW	2019 ZMW
Establishment:		
Rent and rates	4,101,779	2,554,432
Insurance	1,037,586	566,468
Security expenses	463,767	187,860
Amortisation of land	33,427	-
Depreciation on property, plant and equipment	4,226,694	2,587,075
Donations	24,000	12,954
Travel local and international	4,141,060	3,861,335
Conveyance expenses	856,287	820,707
Export sales commission	1,295,181	393,129
Total other operating expenses	16,179,781	10,983,960
4. NET FINANCE COSTS		
Interest expense:		
- loans	-	343,423
- other interest charges - Bank	643,157	399,623
Total net finance (income)/costs	643,157	743,046