



ZAMBIA CREDIT GUARANTEE SCHEME LIMITED



2019 ANNUAL REPORT

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ACRONYMS

ZCGS	–	Zambia Credit Guarantee Scheme
MSMEs	–	Micro, Small and Medium Enterprises
GoZ	–	Government of Zambia
MoF	–	Ministry of Finance
IFRS	–	International Financial Reporting Standards
IASB	–	International Accounting Standards Board
ISAs	–	International Standards on Auditing
NAPSA	–	National Pension Scheme Authority
ERP	–	Enterprise Resource Planning
SDGs	–	Sustainable Development Goals
7NDP	–	Seventh National Development Plan
ZDA	–	Zambia Development Agency

CHAIRPERSON'S STATEMENT

It is an honour for me to present the 2nd Annual Report containing the Audited Financial Statements as well as the activities and overall performance of the Zambia Credit Guarantee Scheme Limited (ZCGS) for the year ended 31st December 2019. The role of ZCGS is to provide a platform for Micro, Small and Medium Enterprises (MSMEs) to access affordable financing. Micro, small and medium enterprises play a vital role in the growth of Zambia's economy contributing extensively to economic factors such as poverty alleviation, job creation and increased tax revenue base. However, most viable Zambian MSMEs face challenges in accessing capital which is fundamental to their growth and competitiveness. Access to finance is limited due to unfavourable borrower demographics such as lack of or inadequate collateral, limited credit history, unreliable financial records as well as market imperfections such as information asymmetry and generally risk-averse lenders.

To address these challenges, the Government of the Republic of Zambia incorporated the Zambia Credit Guarantee Scheme on 13th September 2017 under the Companies Act Cap 388 as a platform for Zambian MSMEs to access increased financing from lending Financial Institutions through a risk-sharing mechanism. The Company is wholly owned by the Government of the Republic of Zambia through the Ministry of Finance pursuant to the Ministry of Finance (incorporation) Act Cap 349 of the Laws of Zambia. Zambia Credit Guarantee Scheme Limited was created to play an enabling role through issuance of partial credit default guarantees, thereby sharing risk with lending financial institutions in instances where there is repayment failure of credit facilities by MSME.

The company was officially launched on 12th September 2018 at a colourful ceremony attended by senior government officials, senior management of Financial Institutions and cooperating development partners. The Shareholders' initial investment commitment in the Scheme was USD5 million, of which ZMW20 million was released in 2017 and ZMW2 million was released in 2018 at the dollar equivalent rate prevailing at the time of the release. This translated into a shareholding of 22,000,000.00 shares. In the year 2019, the Ministry of Finance released K7, 899, 950 for operations.

During the period under review, the company continued with the operationalisation of the institution and put in place the Corporate Governance structure, recruited relevant staff and developed the relevant policies, systems, processes and procedures for a Credit Guarantee Scheme. I wish to thank the shareholders for their guidance, the Board of Directors of ZCGS for providing strategic direction for the company and ZCGS staff for their continued commitment to take this young company forward. Further gratitude goes to all the financial institutions and strategic partners for the support rendered during the inception period of the company.

With support from the shareholders and strategic partners, ZCGS is envisioned to become a successful and effective credit guarantee scheme that promotes the growth and development of MSMEs in Zambia by facilitating their access to the much-needed financing needs.



MASAUTSO E. NYATHANDO (MR.)

BOARD CHAIRMAN

CHIEF EXECUTIVE OFFICER 'S STATEMENT

It is both an honour and a privilege to present the company's Financial Statement for the year ended 31 December 2019.

The Government of the Republic of Zambia has identified the financing of Micro, Small and Medium Enterprises (MSMEs) as a key driver of economic development, as outlined in its National Financial Inclusion Strategy (2017–2022). In support of this initiative, the government established the Zambia Credit Guarantee Scheme (ZCGS) to enhance MSMEs' access to affordable financing from lending institutions.

Economic Overview

In 2019, Zambia's economy entered a deep recession, largely due to the negative effects of the COVID-19 pandemic. After real GDP growth of 4.0% in 2018 and 1.9% in 2019, the economy contracted significantly. Key sectors were severely impacted — manufacturing declined as global supply chains broke down, while the service and tourism industries suffered due to decreased consumption and investment, driven by pandemic containment measures. Mining output initially dropped but recovered in the second half of the year, despite global disruptions. Even before the pandemic, the economy faced significant challenges such as rising inflation, growing fiscal deficits, unsustainable debt, low foreign reserves, and tight liquidity. Despite efforts to ease monetary policy in 2019, price stability and financial sector recovery remained elusive.

As this marked the company's second year of operation, management remained committed to fulfilling its mandate of improving MSMEs' access to finance. Efforts were doubled to grow the guarantee fund, with continued innovation and engagement of potential co-guarantors and stakeholders to leverage capital provided by shareholders. These actions aimed to support more MSMEs, thereby contributing to wealth creation and poverty reduction.

By the end of 2019, overall implementation of strategic plan activities showed measurable progress. Activities that were not completed during the year were scheduled for completion under the 2020 plan.

The company also gained support from non-financial partners for initiatives such as capacity building and developing a sustainable business model, particularly where internal resources were limited. During the reporting period, ZCGS finalized a partnership with Zambia Industrial and Commercial Bank (ZICB), in addition to its existing collaboration with ZANACO. These financial institutions serve as channels through which guarantees are issued.

Collateral requirements remain a significant barrier for MSMEs seeking finance. Through its ongoing activities, ZCGS is committed to aligning with the government's agenda of enhancing MSME access to finance and contributing meaningfully to Zambia's economic growth.



MARY MUMBA MUNANSUNGU

CHIEF EXECUTIVE OFFICER



ABOUT ZAMBIA CREDIT GUARANTEE SCHEME

The Zambia Credit Guarantee Scheme Limited (ZCGS) was incorporated on 13th September 2017 under the Companies Act Cap 388 and launched on 12th September 2018.

The mandate of ZCGS is to provide credit guarantees to viable Micro, Small and Medium Enterprises (MSMEs), with inadequate collateral and track records across selected sectors of the economy, in order to facilitate access to affordable financing.



OUR VISION

"A credible and dynamic credit guarantee institution that promotes the development of Micro, Small, and Medium Enterprises in Zambia".



OUR MISSION

"To facilitate increased access to financing for MSMEs in Zambia in order to promote their growth"

The scheme plays a critical role of driving Zambia's economic development and diversification agenda leveraged on facilitating access to finance for Micro, Small and Medium Enterprises. In addition to facilitating access to finance for MSMEs. The scheme works with business development services providers who provide business coaching services as well as market linkages. This is in line with national priorities espoused in the Seventh National Development Plan (7NDP) which is anchored on the Vision 2030.



OUR CORE VALUES

Integrity

We are honest, reliable, trustworthy and honor our commitments.

Respect

We seek and value people's contributions as well as the strength of our diversity, which enables us to treat our clients and each other with dignity and fairness.

Transparency

We deliver our services in an open and professional manner.

Innovation

We are passionate about what we do and embrace new techniques and ideas in the delivery of our services.

Collaboration

We thrive on teamwork, partnership, and harmony in order to maximize our shared knowledge and bring greater value in the delivery of services.

Accountability

We take responsibility for our actions in the execution of our mandate.

KEY SERVICES

1. Provision of Credit Guarantees

ZCGS facilitates access to finance for micro, small and medium enterprises (MSME) with the purpose of achieving wealth and job creation.

Box 1: Strategic Link of ZCGS's Services to 7NDP, SDGs and Other National Priorities

The ZDA's mandate is premised on:

- 7NDP: ***"Accelerating Development Efforts towards Vision 2030 without Leaving Anyone Behind"***
 - *Pillar 1: Economic Diversification and Job Creation;*
 - *Pillar 3: Reducing Development Inequalities.*
 - *Pillar 2: Poverty and Vulnerability Reduction;*
 - *Pillar 4: Enhancing Human Development;*

- SDGs:
 - SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 4 (Quality Education), SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), SDG 10 (Reduced Inequality), SDG 11 (Sustainable Cities and Communities), SDG 13 (Climate Action), and SDG 17 (Partnership to achieve the Goal).

OUR PARTNERS

Stakeholder collaboration is key for the achievement of economic development and diversification. The scheme worked closely with development partners with matching priorities in implementation of joint-programs for financial and technical support. Our stakeholders include:

- Financial Institutions
- Government ministries and agencies.
- Development Partners:

CORPORATE GOVERNANCE

The operations of the scheme are overseen by a Board of Directors appointed by the Minister of Finance. This Board is charged with governance, strategic direction, risk management and financial reporting responsibilities. During the period under review, the Board Chairperson provided oversight to the scheme.

We are committed to maintaining best practices in corporate governance, which promote the long-term interest of our key shareholders, clients, and partners and to build public trust in the organization. The Agency aspires to be a model of public probity by providing a good return on public funds and promoting high standards of integrity.

The Board

The Board of ZCGS is appointed by the Minister responsible for Finance and is responsible for policy and strategic direction of the company to enable it to attain its strategic objectives whilst at the same time ensuring the company's sustainability. The Chairman and Vice Chairman of the Board are appointed by the Board from amongst its members and must be Independent Non – Executive Directors.

The following were the Non – Executive and Executive Directors who served on the ZCGS Board during the period under review:

Name	Position	Date of Appointment
Chisha Mwanakatwe	Board Chairperson	14 th February, 2018
Ngenda Nyambe	Vice Chairperson	14 th February, 2018
Mrs Ireen Musonda Habasimbi	Member	14 th February 2018
Mrs Kayula Siame	Member	14 th February 2018
Mr Kola Adeleke	Member	14 th February 2018
Mr Francis Musonda	Member	14 th February 2018

Board Committees

The Board of Directors considers good governance practices to be essential in developing and sustaining the company business. The Board thus exercises its oversight function through the following three (3) committees:

Audit Committee

The Committee aids the Board in fulfilling its oversight responsibility and fiduciary obligations to the shareholders. In particular, the Committee is responsible for reviewing internal controls and internal audit function and mandates audit activities. The Committee also recommends appointment of external auditors as well as their remuneration to the Board and ensures that there is compliance with all applicable laws, regulations and operating standards.

Finance, Investment and Administration Committee

The Committee provides strategic oversight role and guidance on human resource management policies, guidelines and standards. The Committee is also responsible for advising the Board on the status of the Company's financial operations, budgetary allocations, personnel policies and investment pricing including interest rates. The

Committee is further responsible for making recommendations on Board remuneration and determines on behalf of the Board specific remuneration packages and conditions of employment for staff.

Risk Management Committee

The Risk Management Committee is responsible for identification, assessment and management of risk as well as monitoring the investments' risk and return objectives. The Committee is also responsible for approving the policies and guidelines for origination, appraisal, structuring and approval of guarantees. The Committee is further responsible for approving acceptable risk thresholds as well as setting guarantee approval limits for management, and approves guarantee applications above the limit set for management and up to the limit delegated to it by the Board.

Executive Committee

The following constituted the Executive Committee of ZCGS as at 31st December 2018:

Mr. Francis Musonda	Chief Executive Officer
Mr. David Zulu	Head- Strategy and Planning
Ms. Yvonne Changwe	Head- Risk, Credit Documentation and Operations
Ms Fuvya Nyirongo	Head- Products and Sales
MsDiana Mwendaweli	Head- Business Development
Mr. Remmy Kampamba	Head- Monitoring and Evaluation
Ms. Nyangu Kayamba	Head- Human Resource and Administration
Mr. Andrew Sibale	Head- Internal Audit
Ms. Tizyo M Bulaka	Head- Legal/Company Secretary
Mrs. Esther Mbaya	Head- Procurement
Ms Roger.C. Chuungu	Head- Information, Communication and Technology
Mr. Victor Njovu	Finance Officer

SUMMARY OF THE ACTIVITIES

This Report highlights the main features of the ZCGS's performance in 2018 with regards to the provision of credit guarantees as the core business.

The year under review was the year in which ZCGS began to operate and to be operationalised following its incorporation on 13th September 2017. The year thus was characterised by a number of start – up activities meant to bring the company to operational standards. The main activities included:-

- (a) Appointed of Mr. Francis Musonda as Chief Executive Officer on 4th December 2017 to initially set up the Company. In February, 2018, senior Staff from the Ministry of Finance as well as those from the Public Service Microfinance Limited were identified and attached to the Company to aid with the operationalisation;

- (b) The team put together to operationalise the company reviewed the business plan and financial model, developed the modus operandi of the business, drafted the interim organisational structure of the business, a ZCGS Prospectus for investors and corporate strategy;
- (c) Securing of office accommodation, procurement of office equipment and furniture and the Enterprise Resource Planning System;
- (d) Engagement of development finance institutions and cooperating partners for treasury raising and technical assistance;
- (e) Commencement of the process of on – boarding of Partner Finance Institutions and Business Coaches; and
- (f) Recruitment of critical staff for operations of the company.

REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2022



Item No.	Description	Quantity	Amount
046	53		
858	75		
894	67		
482	74		
388	40		
480	00		
458	00		

1.0 AUDITED FINANCIAL STATEMENTS

The Directors submit the audited annual financial statements for the year ended 31 December 2019, which disclose the state of affairs and performance of Zambia Credit Guarantee Scheme Limited (the "Company").

Principal activities

The principal activity of the Company is to provide partial guarantees to lending institutions in order to promote the growth and development of micro, small and medium enterprises (MSMEs) in Zambia by facilitating their financing needs. There have been no significant changes in the Company's business during the year. No guarantees were issued in the period.

Share capital and beneficial ownership information

The authorised share capital of the Company stands at 22,000,000 ordinary shares of K1 each. The issued and fully paid-up share capital remained at 22,000,000 ordinary shares of K1 each.

REPORT OF THE DIRECTORS**FOR THE YEAR ENDED 31 DECEMBER 2019**

The Company shareholding and beneficial ownership is represented as follows:

Name of shareholder	Percentage of shareholding	Beneficial owner(s)
Ministry of Finance	100%	Ministry of Finance

There were no changes in the beneficial ownership during the year.

Significant events during the year

There were no significant events during the year.

Results and dividend

The loss for the year was K11,608,381 (2018: K17,720,359). The Directors have not declared a dividend nor have any dividends been paid during the year.

Directors and remuneration

The Directors who held office during the year under review from the date of appointment are in the underlisted table

Name	Position	Appointment	2019
Chisha Mwanakatwe	Chairperson	14/02/2018	31/12/2019
Ngenda Nyambe	Vice Chairperson	14/02/2018	31/12/2019
Kola Adeleke	Board Member	14/02/2018	31/12/2019
Francis Musonda	Board Member	14/02/2018	31/12/2019
Kayula Siame	Board Member	14/02/2018	31/12/2019
Ireen Musonda Habasimbi	Board Member	14/02/2018	31/12/2019

During the year, the total Directors' remuneration was K598, 915 (2018: K600,500). This related to services rendered by Executive Directors.

REPORT OF THE DIRECTORS**FOR THE YEAR ENDED 31 DECEMBER 2019****Interests register information**

During the year, the Company employees and those charged with governance (Directors, Company Secretary or Executive Officers of the Company) did not declare any interest in the Company's transactions and business.

The interests register, as required by the Companies Act, 2017 of Zambia, that should contain particulars of the interests declared, is available for inspection at the Company's registered office.

Average number of employees and remuneration

The total remuneration of employees during the year amounted to K10,459, 887 (2018: K6,970,951) and the average number of employees was less than 100.

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

Gifts and donations

During the year, the Company did not make any gifts or donations to charitable organisations and events.

Research and development

The Company did not incur any costs on research and development during the year.

Property and equipment

The Company did not purchase any property and equipment during the year ended 2019, (2018: K4,481,716). In the opinion of the Directors, the carrying value of property, plant and equipment is not less than their recoverable value.

Company auditor and remuneration

The Auditor, Grant Thornton, has indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the next annual general meeting.

The Auditor's remuneration for the year was K299,779 (2018: K111,300) exclusive of taxes. This related to audit services rendered to the Company.

Signed on behalf of the Board of Directors:



Masautso E. Nyathando

Board Chairman



Sabina Mubanga Luputa

Board Audit Committee Chairperson

Date:

STATEMENT OF DIRECTORS' RESPONSIBILITIES**FOR THE YEAR ENDED 31 DECEMBER 2019**

The Companies Act, 2017 of Zambia requires the Directors to prepare annual 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 adhere to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the Companies Act, 2017 of Zambia.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act, 2017 of Zambia.

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

The Directors are of the opinion that the annual financial statements set out on pages 21 to 43 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 requirements of the Companies Act, 2017 of Zambia. The Directors further report that they have implemented and further adhered to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the Companies Act, 2017 of Zambia.

As set out in Note 2(a), the Company made losses of K11,608,381, (2018: K17,720,359). The Directors continue to implement various business strategies to improve Company performance. The Company's ultimate parent, Ministry of Finance, has confirmed to the Company's Directors that it will continue to provide financial and operational support to the Company for at least twelve months from the date of these annual financial statements.

Based on the confirmation and measures aimed at improving the Company's performance and position, the Directors believe that the Company will remain a going concern for at least twelve months from the date of these annual financial statements.

Signed on behalf of the Board of Directors:



Masautso E. Nyathando

Board Chairman



Sabina Mubanga Luputa

Board Audit Committee Chairperson

Date:

INDEPENDENT AUDITOR'S REPORT**TO THE SHAREHOLDERS OF ZAMBIA CREDIT GUARANTEE SCHEME LIMITED****Report on the Audit of the Financial Statements****Opinion**

We have audited the separate financial statements of Zambia Credit Guarantee Scheme Limited for the year ended 31 December 2019, which comprise the statement of comprehensive income, of changes in equity, the statement of financial position and the statement of cash flows for the year then ended, and notes to the financial statement, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the company financial position of Zambia Credit Guarantee Scheme Limited as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act and the Securities Act of Zambia.

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 Zambeef Products PLC in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) together with 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. 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 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.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Chairman's report, Directors' report, Chief Executive Officer's review, Sustainability report and Corporate Governance Statements, 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 the Directors for the annual financial statements

The Directors are responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS as issued by the IASB and the requirements of the Companies Act, 2017 of Zambia, and for such internal control as the Directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual 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.

The Directors 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 annual 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 annual 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 annual 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 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 annual 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 annual financial statements, including the disclosures, and whether the annual 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.

INDEPENDENT AUDITOR'S REPORT**TO THE SHAREHOLDERS OF ZAMBIA CREDIT GUARANTEE SCHEME LIMITED****Report on other Legal and Regulatory Requirements****The Companies Act, 2017 of Zambia**

The Companies Act, 2017 of Zambia requires that in carrying out our audit of Zambia Credit Guarantee Scheme Limited, we report on whether:

- i. as required by section 259 (3)(a), there is a relationship, interest or debt which, ourselves, as the Company Auditor, have in the Company;
- ii. as required by section 259 (3)(b), there are serious breaches by the Company's Directors, of corporate governance principles or practices contained in Sections 82 to 122 of Part VII of the Companies Act, 2017 of Zambia; and
- iii. in accordance with section 250 (2), as regards loans made to a Company Officer (a director, company secretary or executive officer of the company), the Company does not state the:
 - particulars of any relevant loan made during the financial year to which the accounts apply, including any loan which was repaid during that year; or
 - amount of any relevant loan, whenever made, which remained outstanding at the end of the financial year.

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


Chartered Accountants


Christopher Mulenga (AUD/F000178)

Name of Partner signing on behalf of the Firm

Lusaka

Date:

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

STATEMENT OF COMPREHENSIVE INCOME

	Note	2019 K	2018 K
Revenue		7,899,950	-
Other income			
Interest on investments and other Income	5	<u>463,800</u>	<u>199,521</u>
		<u>8,363,750</u>	<u>199,521</u>
Expenditure			
Administrative expenses	6	<u>(19,972,130)</u>	<u>(17,919,880)</u>
Loss for the year before tax		(11,603,381)	(17,720,359)
Income tax	8	<u>-</u>	<u>-</u>
Loss for the year		(11,603,381)	(17,720,359)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive loss for the year		<u>(11,603,381)</u>	<u>(17,720,359)</u>

The notes on pages 22 to 41 are an integral part of these annual financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

STATEMENT OF FINANCIAL POSITION

	Note	2019 K	2018 K
Assets			
Non-current assets			
Property and equipment	9	<u>3,021,541</u>	<u>4,060,620</u>
		<u>3,021,541</u>	<u>4,060,620</u>
Current assets			
Trade and other receivables	11	42,667	409,547
Cash and cash equivalents	12	<u>654,222</u>	<u>3,316,618</u>
		<u>696,889</u>	<u>3,726,165</u>
Total Assets		<u>3,718,430</u>	<u>7,786,785</u>
Equity and Liabilities			
Equity			
Share capital	13	22,000,000	22,000,000
Accumulated losses		<u>(29,328,740)</u>	<u>(17,720,359)</u>
		<u>(7,328,740)</u>	<u>4,279,641</u>
Current liabilities			
Trade and other payables	14	<u>11,047,169</u>	<u>3,507,144</u>
Total Liabilities		<u>11,047,169</u>	<u>3,507,144</u>
Total Equity and Liabilities		<u>3,718,430</u>	<u>7,786,785</u>

The notes on pages 22 to 41 are an integral part of these financial statements.

The financial statements on pages 18 to 41 were approved for issue by the Board of Directors on 2020 and signed on its behalf by:



Masautso E. Nyathando
Board Chairman



Sabina Mubanga Luputa
Board Audit Committee Chairperson

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

STATEMENT OF CHANGES IN EQUITY

	Share capital	Accumulated losses	Total
Year ended 31 December 2018			
At start of year	-	-	-
Transaction with owners of equity			
Shares issued	22,000,000	-	22,000,000
Loss for the year	-	(17,720,359)	(17,720,359)
Total comprehensive loss for the year	-	(17,720,359)	(17,720,359)
At end of year	22,000,000	(17,720,359)	4,279,641
Year ended 31 December 2019			
At start of year	22,000,000	(17,720,359)	4,279,641
Transaction with owners of equity			
Loss for the year	-	(11,608,381)	(11,608,381)
Total comprehensive loss for the year	-	(11,608,381)	(11,608,381)
At end of year	22,000,000	(29,328,740)	(7,328,740)

The notes on pages 22 to 41 are an integral part of these annual financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

STATEMENT OF CASH FLOWS

		2019	2018
	Note	K	K
Cash flows from operating activities			
Cash utilised in operations	15	<u>(11,137,226)</u>	<u>(14,201,667)</u>
Net cash utilised in operating activities		<u>(11,137,226)</u>	<u>(14,201,667)</u>
Cash flows from investing activities			
Purchase of property and equipment	9	-	<u>(4,481,717)</u>
Net cash outflow from investing activities		<u>=</u>	<u>(4,481,717)</u>
Cash flows from financing activities			
Issue of shares	13	-	<u>22,000,000</u>
Grants received		<u>8,474,832</u>	-
Net cash inflow from financing activities		<u>8,474,832</u>	<u>22,000,000</u>
Increase in cash and cash equivalents		(2,662,396)	3,316,616
:Movement in cash and cash equivalents		(2,662,394)	
Cash and cash equivalents at beginning of year		3,316,616	-
Increase in cash and cash equivalents		<u>654,222</u>	<u>3,316,616</u>
Cash and cash equivalents at end of year	12	<u>654,222</u>	<u>3,316,616</u>

The notes on pages 22 to 41 are an integral part of these annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019**1. General information**

Zambia Credit Guarantee Scheme Limited was incorporated in Zambia under the Zambia Companies Act as a limited liability Company, and is domiciled in Zambia. The address of its registered office is:

Plot 164 – 171
Corner of Bishop and Roan Road
Kabulonga
Lusaka, Zambia

The Company was incorporated on 13th September 2017 and began its operating activities on 1 January 2018.

For the Zambia Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account or income statement by the statement of profit or loss and other comprehensive income, in these annual financial statements.

2. Summary of significant accounting policies

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

(a) Basis of preparation

The annual financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by IFRS Interpretations Committee applicable to companies reporting under IFRS. The annual financial statements comply with IFRS as issued by the International Accounting Standards Board (“IASB”) and the requirements of the Companies Act, 2017 of Zambia.

The annual financial statements have been prepared on a historical cost basis, unless otherwise stated in the accounting policies below. The annual financial statements are presented in Zambian Kwacha (“K”), rounded to the nearest thousand. In accordance with the Companies Act, 2017 of Zambia, the annual financial statements for the period ended 31 December 2019 have been approved for issue by the Directors.

The preparation of annual financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Directors to exercise judgement in the process of applying the Company’s accounting policies. Note 3 discloses the areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

2 **Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)***Going concern*

The Company made a loss of K11,608,381 (2018: K17,720,359) during the year. In order to improve the Company's financial position, performance and to sustain the Company as a going concern in the foreseeable future, the Directors continue to implement various business strategies. Furthermore, the Company's ultimate parent company, the Ministry of Finance and National Planning has confirmed to the Company's Directors that it will continue to provide financial support to the Company into the foreseeable future.

Based on the confirmation and measures aimed at improving the Company's performance, the Directors believe that it is appropriate to prepare the Company's annual financial statements on a going concern basis, which assumes that the Company will continue to meet its obligations as they fall due for the next twelve months from the date of these annual financial statements.

(b) New Standards and amendments that are effective at 1 January 2019 and are applicable to the Company**IFRS 16 'Leases'**

- IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').
- The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.
- The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.
- For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

2 **Summary of significant accounting policies (continued)****(b) New Standards and amendments that are effective at 1 January 2019 and are applicable to the Company**

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

- Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.
- On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognize right-of use assets but to account for the lease expense on a straightline basis over the remaining lease term.
- For those leases previously classified as financial leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.
- On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 30%.
- The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

2 Summary of significant accounting policies (continued)

(b) New Standards and amendments that are effective at 1 January 2019 and are applicable to the Company

IFRS 16 'Leases' (continued)

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 to 1 January 2019:

	Carrying amount at December 31 2019	Reclassification	Remeasurement	IFRS 16 carrying amount at January 1 2020
Property, plant and equipment				
Lease liabilities				
	-	-	-	-
	-	-	-	-
Total				

The following is a reconciliation of total operating lease commitments at 31 December 2019 (as disclosed in the financial statements to 31 December 2019) to the lease liabilities recognized at 1 January 2020:

	ZMW	ZMW
Total operating lease commitments disclosed at 31 December 2019		-
Recognition exemptions:		
<input type="checkbox"/> Leases of low value assets	-	-
<input type="checkbox"/> Leases with remaining lease term of less than 12 months	-	-
Variable lease payments not recognized	-	-
Other minor adjustments relating to commitment disclosures	-	-
		-
Operating lease liabilities before discounting		-
Discounted using incremental borrowing rate		-
Operating lease liabilities		-
Reasonably certain extension options		-
Finance lease obligations		-
Total lease liabilities recognized under IFRS 16 at 1 January 2019		-

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

2 Summary of significant accounting policies (continued)

(c) **Other Standards and amendments that are effective for the first time in 2019 and could be applicable to the Company are:**

- IFRIC 23 Uncertainty over Income Tax Treatments
- IFRS 9 Prepayment Features with Negative Compensation Amendments to IFRS 9)

- IAS 28 long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Annual Improvements to IFRS 2015 – 2017 Cycle.
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

These amendments do not have a significant impact on these financial statements and therefore the disclosures have not been made.

(d) **Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Company**

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards, amendments or Interpretations have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the Company's financial statements.

Other standards and amendments that are not yet effective and have not been adopted early by the Company include:

- IFRS 17 Insurance Contracts;
- Definition of a Business (Amendments to IFRS 3);
- Definition of Material (Amendments to IAS 1 and IAS 8);
- Conceptual Framework for Financial Reporting.

These amendments are not expected to have a significant impact on the financial statements in the period to initial application and therefore the disclosures have not been made.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

2 Summary of significant accounting policies (continued)

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the annual financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The annual financial statements are presented in Zambian Kwacha ("K") which is the Company's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or finance cost'. All other foreign exchange gains and losses are presented in profit or loss within other operating income or expenses

(f) Revenue from contracts with customers

IFRS 15 introduces a five-step model for recognising revenue to depict transfer of goods or services. The model distinguishes between promises to a customer that are satisfied at a point in time and those that are satisfied over time.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of value-added tax (VAT), rebates and discounts.

It is the Company's policy to recognise revenue from a contract when it has been approved by both parties, rights have been clearly identified, payment terms have been defined, the contract has commercial substance, and collectability has been ascertained as probable. Collectability of customer's payments is ascertained based on the customer's historical records, guarantees provided, the customer's industry and advance payments made if any revenue is recognised when service is rendered by reference to the completion of the specific transaction assessed based on the actual service provided.

In the current year, the Company's revenue consists solely of interest earned on bank accounts and other fees and commissions. The Company did not issue any Guarantees in the period.

(g) Employee benefits

Retirement benefit obligations

The Company operates defined contribution retirement benefit schemes for its employees. The Company and all its employees also contribute to the National Pension Scheme Fund (NAPSA), which is a defined contribution scheme.

A defined contribution plan is a pension 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 held in separate trustee administered funds, which are funded by contributions from both the Company and employees.

The Company's contributions to the defined contribution schemes are charged to profit or loss in the year in which they fall due.

(h) **Income tax**

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

Current income tax

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. The Directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognised, using the liability/balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the annual financial statements. However, the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

2 Summary of significant accounting policies (continued)**(i) Property and equipment**

All categories of property and equipment are initially recorded at cost and are subsequently measured at historical cost less accumulated depreciation and any accumulated impairment losses. 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. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Machinery & equipment	years 5
IT equipment	years 3
Transportation equipment	years 4
Motor vehicles	years 4
Other equipment	years 10 – 3

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

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by comparing the proceeds to their carrying amount and are included in profit or loss.

(j) Trade receivables

Trade receivables are amounts due from customers for goods 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.

(k) Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks.

(l) 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

2 **Summary of significant accounting policies (continued)**

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, less provision for impairment.

(m) **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value are recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of reporting period

(n) **Borrowing costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(o) **Financial instruments**Classification and measurement*Financial assets*

It is the Company's policy to initially recognise financial assets at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss which are expensed in profit or loss.

Classification and subsequent measurement is dependent on the Company's business model for managing the asset and the cash flow characteristics of the asset. On this basis, the Company may classify its financial instruments at amortised cost, fair value through profit or loss and at fair value through other comprehensive income.

All the Company's financial assets as at 31 December 2018 satisfy the conditions for classification at amortised cost under IFRS 9.

The Company's financial assets include trade receivables, intercompany receivables, other receivables and cash and cash equivalents.

Financial liabilities

Financial liabilities of the Company are initially measured at fair value and subsequently measured at amortised cost net of directly attributable transaction costs.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

2 **Summary of significant accounting policies (continued)**(o) **Financial instruments (continued)**i) *Financial assets*Impairment of financial assets

Recognition of impairment provisions under IFRS 9 is based on the expected credit loss (ECL) model. The ECL model is applicable to financial assets classified at amortised cost. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating 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.

The Company applies the simplified approach to determine impairment of receivables. The simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables. This involves determining the expected loss rates which is then applied to the gross carrying amount of the receivable to arrive at the loss allowance for the period.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the related financial assets and the amount of the loss is recognised in profit or loss.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities

The Company derecognises a financial liability when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised immediately in the statement of profit or loss.

(p) Share capital

Ordinary shares are classified as 'share capital' in equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from share premium. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's holders.

(q) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable which is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units – "CGU").

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

2 **Summary of significant accounting policies (continued)**(o) **Financial instruments (continued)**

Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to its revised or its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss occurred in prior years. An impairment loss reversal is recognised as income immediately in the income statement.

(r) **Comparatives**

Under IAS 1, comparative information must be provided for all amounts reported in the annual financial statements, except when a standard provides otherwise. IAS 1 further states that comparative information should also be provided for narrative and descriptive information when it is relevant to an understanding of the current period's annual financial statements.

3 **Critical accounting estimates and judgments**

Estimates and judgements 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.

The Directors make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The Company has the following significant estimates.

Recoverability of deferred income tax asset

Critical estimates are made by the Directors in determining the recoverability of the deferred tax asset recognised. This involves estimating the amount of future taxable profits against which the deferred tax asset can be realised. The Directors are of the view that the Company will be unable to generate sufficient taxable profits and therefore a potential deferred income tax asset of K8,024,201 has not been recognised.

4 **Financial risk management**

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate 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. The Company does not hedge any of its risk exposures.

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

(a) **Market risk**

The Company is not exposed to any significant foreign exchange or interest rate risk.

(b) **Credit risk**

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

4 **Financial risk management (continued)**(a) **Credit risk (continued)**

For banks and financial institutions, only reputable well-established financial institutions are accepted. For trade receivables, the credit controller assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Company does not grade the credit quality of receivables. Individual risk limits are set in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

No collateral is held for any of the above assets. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated. The Company does not use external credit ratings for the purposes of assessing credit quality. The credit quality of financial assets that are neither past due nor impaired is assessed by reference to historical information about counterparty default rates and by reference to expected future information.

The Company's maximum exposure to credit risk is as follows:

	2019	2018
	K	K
Other receivables	42,667	141,987
Cash and cash equivalent	<u>654,222</u>	<u>3,316,618</u>
	<u>696,889</u>	<u>3,458,605</u>

(b) **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
At 31 December 2018:				
Trade and other payables (excluding statutory liabilities)	3,017,588	-	-	3,017,588
Total financial liabilities	3,017,588	-	-	3,017,588
At 31 December 2019:				
Trade and other payables (excluding statutory liabilities)	3,520,981	489,556	-	4,010,537
Total financial liabilities	3,520,981	489,556	-	4,010,537

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

4 Financial risk management (continued)

(c) Capital management

The Company's objectives when managing capital are to safeguard its 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 adjust the number of dividends paid to shareholders, issue new capital or sell assets to reduce debt.

(d) Financial instruments by category

	2019	2018
	K	K
Financial assets at amortised cost		
Trade and other receivables (excluding non-financial assets) Note 11	667,42	141,987
Cash and cash equivalents (Note 12)	654,222	3,316,616
	<u>889,696</u>	<u>3,458,603</u>
Trade and other payables (excluding statutory obligations)	4,010,537	3,017,588
	<u>4,010,537</u>	<u>3,017,588</u>

5 Other income

	2019	2018
	K	K
Interest Income	48,206	173,821
Fee and commission income	-	25,700
UNECA	171,427	-
Magosha ERP Funds	244,167	-
	<u>463,800</u>	<u>199,521</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

6 Expenses by nature

The following expenses have been charged in arriving at the profit before income tax:

	2019	2018
	K	K
Depreciation on property and equipment (Note 9)	1,039,079	421,096
Advertising and exhibition expenses	273,339	2,739,533
Employee benefits expense (Note 7)	10,459,887	6,970,951
Consultancy	27,534	364,400
Auditor's remuneration and audit expense	249,779	111,300
Transport and travel	199,756	1,416,869
Procurement expenses	039,00,113	745,327
Withholding tax (WHT) expense	12,601	263,326
Recruitment, workshops and staff training	1,092,672	560,320
Other expenses	<u>6,617,483</u>	<u>4,326,758</u>
	<u>19,972,130</u>	<u>17,919,880</u>

7 Employee benefits expense

The following are included within the employee benefits expense:

	2019	2018
	K	K
Salaries and wages	5,425,167	3,123,942
Allowances	207,284	1,014,626
Gratuity and leave pay	4,645,514	2,719,736
:Retirement benefits costs		
Defined contribution scheme -	36,734	81,773
National Pension Scheme Authority -	132,982	7,748
Other staff expenses	<u>12,206</u>	<u>23,126</u>
	<u>887,459,10</u>	<u>6,970,951</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

8 **Income tax**

	2019	2018
Current income tax expense	-	-

The income tax expense on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2019	2018
Loss before income tax	(11,608,381)	(17,720,359)
Tax calculated at the statutory income tax rate of 35%	4,062,933	(6,202,123)
Tax effects of:		
-Movement in potential deferred tax asset not recognised	(4,062,933)	6,202,123
Income tax expense	-	-

Tax losses

Tax losses are available for carrying forward for a maximum period of five years. The Company had tax losses as below:

Accounting date	Tax loss	Cumulative	Expiry date
January 2019 1	15,831,408	15,831,408	December 2023 31
December 2019 31	936,7,131	344,963,22	December 2024 31

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

9 Property and equipment

Details	Motor Vehicles	Computer Equip. & Software	Office Furniture & Equipment	Total
	K	K	K	K
At 1 January 2018				
Cost	-	-	-	-
Accum. depreciation	-	-	-	-
Net Book Value	-	-	-	-
31st December, 2018				
Opening net book value	-	-	-	-
Additions	2,817,878	534,292	1,129,546	4,481,716
Depreciation charge	(176,117)	(171,622)	(73,357)	(421,096)
Closing net book value	<u>2,641,761</u>	<u>362,670</u>	<u>1,056,189</u>	<u>4,060,620</u>
At 1 January, 2019:				
Cost	2,817,878	534,292	1,129,546	4,481,716
Accum. depreciation	(176,117)	(171,622)	(73,357)	(421,096)
Net Book Value	<u>2,641,761</u>	<u>362,670</u>	<u>1,056,189</u>	<u>4,060,620</u>
Year ended 31st December, 2019:				
Opening net book value	2,641,761	362,670	1,056,189	4,060,620
Additions	-	-	-	-
Depreciation charge	(704,470)	(216,861)	(117,748)	(1,039,079)
Closing net book value	1,937,292	145,809	938,441	3,021,541
Year ended 31st December, 2018:				
Cost	2,817,878	534,292	1,129,546	4,481,716
Accum. depreciation	(176,117)	(171,622)	(73,357)	(421,096)
Net Book Value	2,641,761	362,670	1,056,189	4,060,620
Year ended 31st December, 2019:				
Cost	2,817,878	534,292	1,129,546	4,481,716
Accum. depreciation	(880,587)	(388,483)	(191,105)	(1,460,175)
Net Book Value	1,937,292	145,809	938,441	3,021,541

The register showing the details of property and equipment, as required by Section 30 of the Zambia Companies Act, 2017 of Zambia is available during business hours at the registered office of the Company.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

10 Deferred income tax not recognised

	2019	2018
At start of year	(5,081,697)	-
Deferred income tax	(8,024,201)	(5,081,697)

Deferred income tax asset and deferred income tax charge/(credit) to profit or loss is attributable to the following items:

	At start of year	Movement not recognised	At end of year
Year ended 31 December 2018			
Deferred income tax liabilities			
Property and equipment	-	<u>244,767</u>	<u>244,767</u>
	-	<u>244,767</u>	<u>244,767</u>
:Deferred income tax assets			
Provisions	-	(905,899)	(905,899)
Tax losses	-	<u>(5,540,991)</u>	<u>(5,540,991)</u>
	-	<u>(6,446,890)</u>	<u>(6,446,890)</u>
Potential deferred tax asset not recognised	-	<u>(6,202,123)</u>	<u>(6,202,123)</u>

	At start of year	Movement not recognised	At end of year
Year ended 31 December 2019			
Deferred income tax liabilities			
Property and equipment	<u>244,767</u>	<u>28,473</u>	<u>240,273</u>
:Deferred income tax assets			
Provisions	905,899	,1,595 228	2,501,127.58
Tax losses	<u>(6,202,126)</u>	<u>(4,062,933)</u>	<u>(10,265,059)</u>
Potential deferred tax asset not recognised	<u>(5,081,697)</u>	<u>(2,942,504)</u>	<u>(8,024,201)</u>

No deferred tax asset was recognized as at the year ended 31st December 2019 (31st December 2018: Nil) as the Directors of the Company did not believe that the company would be able to generate sufficient future profits to utilise the tax losses carried forward.

NOTES TO THE FINANCIAL STATEMENTS – 31ST DECEMBER 2019

11 Trade and other receivables

	2019	2018
	K	K
Staff advances	42,667	39,572
Interest receivable	-	100,465
Prepayments	-	267,560
Other receivables	-	1,950
	<u>42,667</u>	<u>409,547</u>

12 Cash at bank and in hand

	2019	2018
Cash at bank and in hand	<u>654,222</u>	<u>3,316,618</u>

13 Share capital

	Number of shares	Ordinary shares
Year ended 31 December 2019	-	-
At start and end of year	<u>22,000,000</u>	<u>22,000,000</u>
Year ended 31 December 2018		
At start of year	22,000,000	22,000,000
Issue of shares	-	-
At end of year	<u>22,000,000</u>	<u>22,000,000</u>

The company had authorised share capital of 22,000,000. The authorised share capital of the Company at 31 December 2019 and 31 December 2018 was 22,000,000, comprising ordinary shares of K1 each. All shares are issued and fully paid.

14 Trade and other payables

	2019	2018
	K	K
Gratuity and leave provision	7,036,633	2,588,284
Other payables – statutory obligations	1,969,864	489,556
Other payables - accrued expenses and provisions	<u>2,040,672</u>	<u>429,304</u>
	<u>11,047,169</u>	<u>3,507,144</u>

The carrying amount of the trade and other payables approximate to their fair values.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2019

15 **Cash generated from operations**

	2019	2018
	K	K
Loss before tax	(11,608,381)	(17,720,359)
<i>Adjustments:</i>		
Depreciation on property and equipment (Note 9)	1,039,079	421,096
Reduction in provisions	(8,008,630)	
<i>Changes in working capital:</i>		
Trade and other receivables	(99,320)	(409,547)
Trade and other payables	<u>7,540,025</u>	<u>3,507,143</u>
Cash utilised in operations	(11,137,226)	(14,201,667)

16 **Related party transactions**

The Company's immediate and ultimate parent is Ministry of Finance and National Planning.

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

i) **Issue of shares**

	2019	2018
	K	K
<i>Ministry of Finance</i>	-	22,000,000

ii) **Directors fees**

	2019	2018
	K	K
Retainer fees	277,100	402,000
Sitting allowances	<u>321,815</u>	<u>198,500</u>
	<u>598,915</u>	<u>600,500</u>

