

**GRUMETI CONSTRUCTION LIMITED
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

GRUMETI CONSTRUCTION LIMITED

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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GRUMETI CONSTRUCTION LIMITED

**CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2018**

REGISTERED OFFICE:

Grumeti Construction Limited
P.O. Box 65, Mugumu
Mara, Tanzania

DIRECTORS:

Mr. Graham J. Ledger (British)
Mr. Daniel Mwasandube (Tanzanian)

SECRETARY:

Ms. Jackline Tweve
Mawalla Advocates
P.O. Box 6101
Arusha, Tanzania

AUDITOR

Ernst & Young
4th Floor, Tanhouse Tower
Plot No. 34/1, Ursino South,
New Bagamoyo Road
P.O. Box 2475
Dar es Salaam, Tanzania

MAIN BANKERS:

National Bank of Commerce Limited
P.O. Box 3004
Arusha, Tanzania

CRDB Bank Plc.
P.O. Box 386
Musoma, Tanzania

First National Bank Tanzania Limited
Mezzanine floor, PPF Plaza
Old Moshi Road
Arusha, Tanzania

ATTORNEY:

Mawalla Advocates
Mawalla Road
Mawalla Heritage Park
Mawalla Law Office
Plot No. 175/20
P.O.Box 6101
Arusha, Tanzania

GRUMETI CONSTRUCTION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

1. INTRODUCTION

Pursuant to the requirements of chapter 5 of the Tanzanian Companies Act, 2002, the Directors present their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of Grumeti Construction Limited (the "Company").

2. INCORPORATION AND PRINCIPAL ACTIVITIES

The Company is incorporated in Tanzania under the Tanzanian Companies Act, 2002 as a private company limited by shares.

The Company's principal activity is construction, improvement and maintenance of properties within the Grumeti group. During the year ended 31 December 2018, the Company carried out construction projects for Grumeti Reserves Limited, Grumeti Air Limited and Grumeti Community and Wildlife Conservation Fund Limited.

3. COMPANY'S VISION AND MISSION

Grumeti Construction Limited is committed to delivering a quality product on time, within budget and in an environmentally sensitive and responsible manner. The Company's mission is:

- To minimise and mitigate any environmental impact as much as possible and manage all projects according to industry-recognised and accepted sustainability principles;
- To perform for our customers the highest level of quality construction services at fair and market competitive prices;
- To keep safety, quality, professionalism, customer satisfaction and attention to detail the central focus of every project;
- To provide skills development, apprentice-style opportunities to members of our neighbouring communities;
- To contribute to the development of the local economy of the Northern Serengeti region by employing locally whenever possible; and
- To maintain the highest levels of integrity and fairness in our relationships with our suppliers, sub-contractors, professional associates, customers and employees.

GRUMETI CONSTRUCTION LIMITED

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

4. DIRECTORS

The Directors of the Company who held office during the year and to the date of this report were:

Name	Position	Age	Nationality	Discipline/Occupation
Mr. Graham J. Ledger	Director	62	British	Hotelier
Mr. Daniel Mwasandube	Director	63	Tanzanian	Quantity Surveyor

5. CAPITAL STRUCTURE

The Company's capital structure for the period under review was as shown below:

	2018		2017	
	No. of shares	Value TZS '000	No. of shares	Value TZS '000
Authorized share capital:				
Ordinary shares at TZS 10,000 each	2,000,000	20,000,000	2,000,000	20,000,000
Issued share capital				
Ordinary shares at TZS 10,000 each	1,451,046	14,510,460	1,303,084	13,030,840

6. SHAREHOLDERS OF THE COMPANY

The shareholding of the Company is as stated below:-

	2018		2017	
	No. of shares	% Share-holding	No. of shares	% Share-holding
Grumeti Reserves Limited -Fully Paid	1,451,045	99.9999%	1,303,083	99.999%
Mr. Daniel Mwasandube - Unpaid	1	0.0001%	1	0.001%
	1,451,046	100%	1,303,084	100%

7. DIRECTORS' INTERESTS IN SHARES

The Directors' interest in the issued share capital of the Company is as shown in Note 6 above.

8. RESULTS FOR THE YEAR

The Company's results for the year are set out in the statement of profit or loss and other comprehensive income.

GRUMETI CONSTRUCTION LIMITED

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

9. SOLVENCY OF THE COMPANY

The state of financial affairs of the Company is set out in the statement of financial position.

The Company incurred a loss of TZS 1,831,752,000 during the year ended 31 December 2018 (2017: TZS 878,951,000) resulting into an increase in accumulated losses to TZS 12,786,979,000 as at 31 December 2018 (2017: TZS 10,955,277,000). However, the Company's total and current assets exceeded total and current liabilities by TZS 1,723,481,000 and TZS 1,132,215,000 respectively.

The Directors are confident that the Company will continue in operational existence for at least the foreseeable future.

The Directors are pursuing short to long term business plans and strategies including securing funding from the shareholder and getting new business opportunities.

For these reasons, the Directors have adopted the going concern basis of accounting in preparing the financial statements.

10. RELATED PARTY TRANSACTIONS

Details of transactions and balances with related parties are set out in Note 20 to the financial statement.

11. EMPLOYEE MATTERS

Relationship between management and employees

During the year, there were continued good relations between employees and management. There were no unresolved complaints received by management from the employees during the year.

The Company is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribe, religion and disability which does not impair ability to discharge duties.

Medical facilities

The Company subscribes to a medical clinic which has a qualified trauma paramedic who provides medical care on non-discriminatory basis. Major medical issues are referred to regional hospitals. All employees are also under a formal medical insurance scheme paid for by the Company.

Training facilities

Manpower identification, recruitment and development are under an established comprehensive manpower program. Training programs have been and are continually being developed to ensure employees are adequately trained at all levels, all employees have some form of annual training to upgrade skills and enhance development.

Health and safety

The Company has a strong health and safety procedure which ensures that a strong culture of safety prevails at all times. A safe working environment is ensured for all employees and contractors by providing adequate and proper personal protective equipment, training and supervision as necessary.

GRUMETI CONSTRUCTION LIMITED

**DIRECTORS' REPORT (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

11. EMPLOYEE MATTERS (Continued)

Persons with disabilities

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and appropriate training is arranged. It is the policy of the Company that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee Benefit Plan

The Company participates in the publicly administered statutory pension fund schemes. Following the restructuring of the pension funds, the Company contributes social security benefits to the National Social Security Fund (NSSF), which is the fund to which all private sector entities are required to contribute. The Parastatal Pension Fund (PPF), Public Service Pensions Fund (PSPF) and Local Authorities Pension Fund (LAPF) were all merged to form the Public Service Social Security Fund (PSSSF) which is for the public sector entities going forward. The Company and employee contribute 10% each of the employee monthly gross remuneration. The Company has no further pension obligations to its staff other than the monthly contribution obligation to the statutory pension fund.

Gender parity

The Company is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribe, religion and disability which does not impair ability to discharge duties. The number of employees as at 31 December by gender was as follows:

Gender	2018	2017
Male	32	29
Female	-	-
	<u>32</u>	<u>29</u>


12. POLITICAL AND CHARITABLE DONATIONS

The Company did not make any political or charitable donations during the year.

13. AUDITOR

Ernst & Young was the Company's auditor for the year ended 31 December 2018 and has expressed willingness to continue in office and is eligible for reappointment. A resolution to appoint Ernst & Young for the year 2019 will be presented to the Annual General Meeting.

The Directors' Report was approved by the Board of Directors on 23TH JULY.....2019 and signed on its behalf by:


.....
Graham Ledger
Director

GRUMETI CONSTRUCTION LIMITED

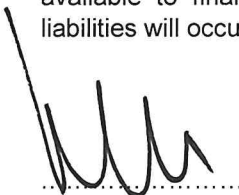
**STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2018**

The Tanzanian Companies Act, 2002 requires the Directors to prepare financial statements for each financial year that present fairly the state of financial affairs of the Company as at the end of the financial year and of its operating results for that year. 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. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and in compliance with the requirements of the Tanzanian Companies Act, 2002. The Directors are of the opinion that the financial statements present fairly the state of the financial affairs of the Company and of its operating results.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the Company will continue to be solvent and that funds will be available to finance future operations and that the realization of assets and settlement of liabilities will occur in the ordinary course of business.


.....
Graham Ledger
Director

23TH JULY.....2019

GRUMETI CONSTRUCTION LIMITED

**STATEMENT OF HEAD OF FINANCE'S RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2018**

The National Board of Accountants and Auditors (NBAA) according to the powers conferred to it under the Auditors and Accountants (Registration) Act No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance responsible for the preparation of the financial statements of the entity concerned.

It is the duty of a professional accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing a true and fair view of the entity's financial position and performance in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act, 2002. Full legal responsibility for the preparation of financial statements rests with the Board of Directors as stated under the Statement of Directors' Responsibilities on the previous page.

I Cyprian Samuwi, being the Head of Finance of Grumeti Construction Limited hereby acknowledge my responsibility of ensuring that the financial statements for the year ended 31 December 2018 have been prepared in compliance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act, 2002.

I thus confirm that the financial statements give a true and fair view of the financial position and results of Grumeti Construction Limited as on that date and for the year then ended, and that the financial statements have been prepared based on properly maintained financial records.

Signature: 

Signed by: Cyprian Samuwi

Position: Head of Finance

NBAA Membership No.: TACPA 1546

Date: 23 July 2019

INDEPENDENT AUDITOR'S REPORT

To the members of Grumeti Construction Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Grumeti Construction Limited (the "Company") set out on pages 11 to 39, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grumeti Construction Limited as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 of Tanzania.

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 Tanzania, 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

Other Information included in the Company's 2018 Annual Report

The other information comprises the Corporate Information, Directors' Report, Statement of Directors' Responsibilities and the Statement of Head of Finance's Responsibilities. The other information does not include the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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



INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of Grumeti Construction Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 of Tanzania, 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 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 financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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



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INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of Grumeti Construction Limited

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

This report, including the opinion, has been prepared for, and only for, the Company's members as a body in accordance with the Companies Act, 2002 of Tanzania and for no other purposes.

As required by the Companies Act, 2002 of Tanzania, we report to you, based on our audit, that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- The Directors' Report is consistent with the financial statements;
- Information specified by law regarding Directors' remuneration and transactions with the Company is disclosed; and,
- The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

Julius Rwajekare
TACPA 2760
For and on behalf of Ernst & Young
Certified Public Accountants
Dar es Salaam

Date: 30 JULY 2019

GRUMETI CONSTRUCTION LIMITED

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	2018 TZS'000	2017 TZS'000
Revenue from contracts with customers	7	5,392,098	6,643,181
Contract costs	8	(4,728,762)	(6,009,567)
Gross profit		663,336	633,614
Other income	9	93,013	128,802
General and administrative expenses	10	(2,571,667)	(1,621,051)
Loss before income tax		(1,815,318)	(858,635)
Income tax charge	18	(16,434)	(20,316)
Loss for the year		(1,831,752)	(878,951)
Other comprehensive income		-	-
Total comprehensive loss for the year, net of tax		(1,831,752)	(878,951)


GRUMETI CONSTRUCTION LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 TZS'000	2017 TZS'000
ASSETS			
Non-current assets			
Property and equipment	17	591,266	451,696
		<u>591,266</u>	<u>451,696</u>
Current assets			
Inventories	21	671,144	398,026
Trade and other receivable	12	490,855	295,410
Amount due from related parties	20	264,359	381,942
Tax recoverable	18	220,752	120,385
Cash and bank balances	13	646,298	879,282
		<u>2,293,408</u>	<u>2,075,045</u>
TOTAL ASSETS		<u>2,884,674</u>	<u>2,526,741</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	14	14,510,460	13,030,840
Accumulated losses		(12,786,979)	(10,955,227)
		<u>1,723,481</u>	<u>2,075,613</u>
Current liabilities			
Amount due to related parties	20	255,427	127,876
Trade and other payables	15	782,607	297,929
VAT payable		123,159	25,323
		<u>1,161,193</u>	<u>451,128</u>
TOTAL EQUITY AND LIABILITIES		<u>2,884,674</u>	<u>2,526,741</u>

The financial statements were approved and authorized by the Board of Directors on

23TH JULY

.....2019 and signed on it's behalf by:



 Graham Ledger
 Director

GRUMETI CONSTRUCTION LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Share capital TZS'000	Accumulated losses TZS'000	Total TZS'000
As at 1 January 2018	13,030,840	(10,955,227)	2,075,613
Issued share capital (Note 14)	1,479,620	-	1,479,620
Total comprehensive loss for the year, net of tax	-	(1,831,752)	(1,831,752)
As at 31 December 2018	<u>14,510,460</u>	<u>(12,786,979)</u>	<u>1,723,481</u>
As at 1 January 2017	3,224,730	(10,076,276)	(6,851,546)
Issued share capital (Note 14)	9,806,110	-	9,806,110
Total comprehensive loss for the year, net of tax	-	(878,951)	(878,951)
As at 31 December 2017	<u>13,030,840</u>	<u>(10,955,227)</u>	<u>2,075,613</u>

GRUMETI CONSTRUCTION LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 TZS'000	2017 TZS'000
Operating activities			
Loss before income tax		(1,815,318)	(858,635)
Adjustments for:			
Depreciation of property and equipment	17	162,797	275,912
Net cash used in operations before working capital changes		(1,652,521)	(582,723)
Working capital adjustments:			
Increase in inventories		(273,118)	(398,026)
(Increase)/decrease in trade and other receivables		(195,445)	1,666,519
Increase/(decrease) in trade and other payables		484,678	(2,323,215)
Decrease in amounts due from related parties		117,583	8,077,602
Increase/(decrease) in VAT payable		97,836	(116,060)
Increase/(decrease) in amounts due to related parties e		127,551	(6,059,568)
Cash (used in)/generated from operations		(1,293,436)	264,529
Tax paid	18	(116,801)	(174,875)
Net cash flows (used in)/from operating activities		(1,410,237)	89,654
Investing activities			
Purchase of property and equipment	17	(302,367)	(284,336)
Net cash flows used in investing activities		(302,367)	(284,336)
Financing activities			
Proceeds from issued share capital		1,479,620	-
Net cash flows from financing activities		1,479,620	-
Net decrease in cash and cash equivalents		(232,984)	(194,682)
Cash and cash equivalents at 1 January		879,282	1,073,964
Cash and cash equivalents at 31 December	13	646,298	879,282
Represented by:			
Cash in hand	13	72,758	66,674
Bank balances	13	573,540	812,608
		646,298	879,282

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

Grumeti Construction Limited (the "Company") is a private limited company incorporated in the United Republic of Tanzania under the Tanzanian Companies Act, 2002. The address of its registered office and principle place of business are disclosed under Corporate Information. The principal activities of the Company are described in the Directors' Report.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and the requirements of the Tanzanian Companies Act, 2002. The measurement basis applied is the historical cost, except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania Shillings, rounded to the nearest thousand (TZS'000).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

2.2 Going concern

During the year, the Company incurred a loss of TZS 1,831,752,000 (2017: loss of TZS 878,951,000) resulting into an increase in accumulated losses to TZS 12,786,979,000 as at 31 December 2018 (2017: TZS 10,955,277,000). However, the Company's total and current assets exceeded total and current liabilities by TZS 1,723,481,000 and TZS 1,132,215,000 respectively. The Directors are also pursuing short and longterm business plans and strategies including new investments to ensure that the Company keeps solvent and returns to profitability.

The financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the Company will continue being solvent and will have adequate resources to meet obligations as and when they fall due, and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New and amended standards and interpretations that became effective

IFRS 9: Financial instruments

The Company applied IFRS 9 for the first time. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39.

The application of IFRS 9 did not have a significant impact on the classification and measurement of the Company's financial instruments. Trade and other receivables, amounts due from related parties and cash and bank balances classified as loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 January 2018.

The standard also did not have a significant impact on the impairment of financial assets as the Company's financial assets comprise deposits held with regulated financial institutions, trade and other receivables and amounts due from related parties for which the probability of default is minimal.

IFRS 15 Revenue from contracts with customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures. The Company adopted IFRS 15 using the modified retrospective method of adoption. The adoption of IFRS 15 did not change the revenue recognition profile of the Company as the Company's construction contracts were short term in nature and completed by year-end. IFRS 15 had no other significant implications on the financial reporting of the Company.

Other new and amended standards that became effective during the year

The other new and amended standards and interpretations that apply for the first time in 2018 do not have an impact on the financial statements of the Company.

Standards issued or amended but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective. The Company intends to adopt these standards, if applicable, when they become effective.

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards issued but not yet effective (Continued)

IFRS 16 Leases

IFRS 16 Leases provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure all leases will be reflected on the statement of financial position, irrespective of substance over form. The new standard will replace IAS 17 Leases and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. On adoption of IFRS 16 the Company will recognise within the statement of financial position a right of use asset and lease liability for all applicable leases. Within the statement of profit or loss and other comprehensive income, rent expense will be replaced by depreciation and interest expense. This will result in a decrease in operating expenses and an increase in finance costs.

The Company's ongoing review of IFRS 16 indicates that standard will not have an impact as there are no lease arrangements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The interpretation addresses: i) whether an entity considers uncertain tax treatments separately; ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; iii) how the entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The Company is still assessing the impact of this interpretation.

Other standards issued and amended but not yet effective

Other standards issued but not yet effective up to the date of issuance of the Company's financial statements are not expected to have a significant impact on the Company's financial statements.

Significant Accounting Policies

Revenue recognition

The Company applied IFRS 15 Revenue from contracts with customers for the first time during the year using the modified retrospective approach. Consequently, the comparative balances are based on the accounting policies used before adoption of IFRS 15. The accounting policies applied to the comparative balances and current year balances are indicated below.

2017 accounting policy

Construction revenue is recognized using the percentage-of-completion method, measured by the percentage of total costs incurred to estimated total costs for each contract. This method is used because management considers expensed costs to be the best available measure of progress on these contracts.

Contract costs include all direct materials and labor costs and those costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. General and administrative expenses are expensed as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

2018 accounting policy

Revenue represents income arising in the course of the Company's ordinary activities, which leads to an increase of economic benefits during the accounting period. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. Revenue is stated net of value-added tax (VAT)

The five-step model stipulated in IFRS 15 Revenue from contracts with customers is applied when accounting for revenue from contracts with customers. The Company accounts for a revenue contract with a customer only when all the following criteria are met:

- The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- The Company can identify each party's rights regarding the goods or services to be transferred;
- The Company can identify the payment terms for the goods or services to be transferred;
- The contract has commercial substance (i.e., the risk, timing or amount of future cash flows is expected to change as a result of the contract); and
- It is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of equipment, the Company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

The Company recognises revenue from construction contracts or provision of services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company. Revenue from sale of goods is recognized at the point in time when control of the goods is transferred to the customer, generally on delivery of the goods.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to the accounting policies on financial assets.

GRUMETI CONSTRUCTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

2018 accounting policy (Continued)

Contract balances (Continued)

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

Cost to obtain a contract

The Company defers and amortises these costs over the period of the contract.

Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment, if any. Depreciation is calculated on the straight-line basis to write down the cost of each asset, to its residual value over its estimated useful life. Estimated useful lives of assets at the time of acquisition are:

Computer hardware	3 years
Furniture, fittings and equipment	8 years
Light motor vehicles	4 years
Heavy motor vehicles	3 years

The useful lives and residual values are reviewed every year, with the effect of any changes in their estimates accounted for on prospective basis.

Property and equipment are periodically reviewed for impairment. If the carrying value of an asset is estimated to be greater than its recoverable amount, it is written down to its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

During the year, the Company adopted IFRS 9 Financial instruments using the modified retrospective method. Consequently, the accounting policies applied for the comparative balances are based on the accounting standards applied before IFRS 9. The accounting policies applied for the comparative and current year balances are described below.

2017 accounting policy

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments. The Company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

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

Financial assets

The Company's financial assets comprise amounts due from third parties and cash and bank balances, all of which are classified as loans and receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the financial asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade receivable financial asset is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to profit or loss.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when: The rights to receive cash flows from the asset have expired; or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: the Company has transferred substantially all the risks and rewards of the asset, or the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

2018 accounting policy

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)

- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

- Financial assets at fair value through profit or loss

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

2018 accounting policy (continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include trade and other receivables, amounts due from related parties and cash and bank balances.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, Or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

GRUMETI CONSTRUCTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

2018 accounting policy (continued)

Financial assets (Continued)

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For amounts due from related parties, bank balances, trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company establishes a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or financial liabilities at amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities at amortised cost, net of directly attributable transaction costs.

The Company's financial liabilities comprise amounts due to related parties and trade and other payables.

Subsequent measurement

After initial recognition, amounts due to related parties and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held on call with banks. These are initially measured at fair value and subsequently at amortised cost using the effective interest rate method.

Translation of foreign currencies

These financial statements are presented in Tanzania shillings, which is also the functional currency of the Company. Transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of the year, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. 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.

Exchange differences are recognized in profit or loss in the period in which they arise except for exchange differences which relate 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 foreign currency borrowing.

Retirement benefit costs

The Company participates in the publicly administered statutory pension fund schemes, currently the National Social Security Fund (NSSF), where it contributes 10% of its employees' monthly gross remuneration. Employees are also obliged to contribute an additional 10% from their gross monthly remuneration. The Company has no further pension obligations to its staff other than its monthly contribution obligation to the fund.

Contributions by the Company in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.

Employee entitlements to annual leave are recognized when they accrue to employees. An accrual is made for the liability for annual leave earned but not taken at the end of the reporting period.

Tax

Income tax expense represents the total of the tax currently payable and deferred tax.

Current income tax

The current income tax charge in profit or loss is based on the statutory income tax rate of 30% applied on taxable profit for the year. The taxable profit is arrived at after taking into consideration relevant provisions of IAS 12 and the Income Tax Act, 2004 as amended.

GRUMETI CONSTRUCTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax (Continued)

Current income tax (Continued):

Taxable profit differs from accounting profit because of items of income or expense that are taxable or deductible in different accounting periods (temporary differences) and items that are never taxable or deductible for tax purposes (permanent differences). The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available in future against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period under review

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss.

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Inventories

Inventories are stated at the lower of cost determined on weighted average basis and net realizable value. Net realizable value is the estimate of the selling price in the ordinary course of business. Specific provision is made for obsolete, slow moving and defective inventories.

Leases - Company as lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease, if any, are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below. These estimates are based on management's best knowledge of current events and actions they may undertake in the future but the actual results may ultimately differ from those estimates. The estimates and underlying assumptions are regularly reviewed and revisions to accounting estimates recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The areas of critical judgments and key sources of estimation uncertainty are as set out below:

Expected credit losses/impairment of financial assets

2017: Management carries out a regular review of the status of accounts receivable and other financial assets to determine whether there is any indication that these assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, which is then dealt with in profit or loss. In determining whether an impairment loss should be recognized in profit or loss, management checks whether there is objective evidence that the assets are impaired. Management estimates of the required provisions are based on critical evaluation of the economic circumstances involved, historical experience and other factors that are considered to be relevant.

2018: The Company assesses the financial assets portfolio to determine whether an impairment loss should be recorded in the profit or loss. The Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of an individual debtor in that portfolio.

The Company performs impairment assessment during recognition of the financial assets taking into consideration forward looking information pertaining to a specific debtor or a certain debtor's portfolio. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs involves estimation. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the Company's financial assets is disclosed in Note 12, 13 and 20.

Property and equipment

Critical estimates are made by Directors in determining the useful lives and residual lives to property and equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

Taxes

The Company is subjected to a number of taxes and levies by various government and quasi-government regulatory bodies. As a rule of thumb, the Company recognizes liabilities for the anticipated tax/levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes/levies. Should it come to the attention of management in one way or other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk and the effects of changes in foreign currency exchange rates and interest rates. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

Risk management is carried out by the Finance Department of the Company under policies approved by the Board of Directors. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, and services offered. The Company, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees and stakeholders understand their roles and obligations.

A description of the significant risk factors is given below together with the risk management policies applicable.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Potential concentration of credit risk consist principally of short-term cash and cash equivalent investments, amounts due from related parties and trade and other receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Company's management based on experience and the current economic environment and forward looking information. The carrying amount of financial assets represents the maximum credit exposure.

The amount that best represents the Company's maximum exposure to credit risk at 31 December without taking account of the value of any collateral obtained was:

	Fully performing	
	2018	2017
	TZS'000	TZS'000
Trade and other receivables (Note 12)	478,755	273,445
Amount due from related parties (Note 20)	264,359	381,942
Bank balances (Note 13)	573,540	812,608
Total credit exposure	1,316,654	1,467,995

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the entity could be required to pay its liabilities earlier than expected.

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Company's short and medium - term funding and liquidity management requirements.

The Company manages liquidity risk by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The Directors may from time to time at their discretion raise or borrow monies for the Company as they deem fit. There are no borrowing limits in the articles of association of the Company.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

At 31 December 2018	<1 year TZS'000	Total TZS'000
Trade and other payables (Note 15)	268,169	268,169
Due to related parties (Note 20)	255,427	255,427
Total	523,595	523,595
At 31 December 2017	<1 year TZS'000	Total TZS'000
Trade and other payables (Note 15)	225,952	225,952
Due to related parties (Note 20)	127,876	127,876
Total	353,828	353,828

The following table details the Company's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

At 31 December 2018	<1 year TZS'000	Total TZS'000
Trade and other receivables (Note 12)	478,755	478,755
Due from related parties (Note 20)	264,359	264,359
Cash and bank balances (Note 13)	646,298	646,298
Total	1,389,412	1,389,412
At 31 December 2017	<1 year TZS'000	Total TZS'000
Trade and other receivables (Note 12)	273,445	273,445
Due from related parties (Note 20)	381,942	381,942
Cash and bank balances (Note 13)	879,282	879,282
Total	1,534,669	1,534,669

GRUMETI CONSTRUCTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Company is not exposed to interest rate risk as it has no interest bearing financial instruments.

The Company's costs and expenses are principally incurred in Tanzanian Shillings (TZS) and United States Dollars (US\$). The Company does not enter into formal hedging transactions in respect of these transactions. Volatility in the exchange rate of US\$ against TZS would make the Company's costs and results less predictable than when exchange rates are more stable.

Average TZS to US\$ exchange rates at 31 December 2018 and 31 December 2017 were 1 US\$ = TZS 2,300 and 1 USD\$ = TZS 2,240 respectively.

The Company was exposed to the currencies disclosed in the table below (All amounts are in TZS'000):

	USD	In functional currency (TZS)	Total
At 31 December 2018			
Financial assets			
Trade and other receivables	317,919	160,836	478,755
Due from related parties	254,279	10,080	264,359
Cash and bank balances	400,283	246,015	646,298
	<u>972,480</u>	<u>416,932</u>	<u>1,389,412</u>
Financial liabilities			
Trade and other payables	17,610	250,559	268,169
Due to related parties	-	255,427	255,427
	<u>17,610</u>	<u>505,985</u>	<u>523,595</u>
At 31 December 2017			
Financial assets			
Trade and other receivables	198,868	74,577	273,445
Due from related parties	381,019	923	381,942
Cash and bank balances	580,569	298,713	879,282
	<u>1,160,456</u>	<u>374,213</u>	<u>1,534,669</u>
Financial liabilities			
Trade and other payables	29,378	196,574	225,952
Due to related parties	-	127,876	127,876
	<u>29,378</u>	<u>324,450</u>	<u>353,828</u>

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk (Continued)

Financial instruments categorization as at 31 December 2018

	Debt instruments at amortised cost TZS'000	Financial liabilities carried at amortized cost TZS'000	Total TZS'000
Financial assets			
Trade and other receivables (Note 12)	478,755	-	478,755
Due from related parties (Note 20)	264,359	-	264,359
Cash and bank balances (Note 13)	646,298	-	646,298
Total financial assets	1,389,412	-	1,389,412
Financial liabilities			
Trade and other payables (Note 15)	-	268,169	268,169
Due to related parties (Note 20)	-	255,427	255,427
Total financial liabilities	-	523,595	523,595

Financial instruments categorization as at 31 December 2017

	Loans and receivables TZS'000	Financial liabilities carried at amortized cost TZS'000	Total TZS'000
Financial assets			
Trade and other receivables (Note 12)	273,445	-	273,445
Due from related parties (Note 20)	381,942	-	381,942
Cash and bank balances (Note 13)	879,282	-	879,282
Total financial assets	1,534,669	-	1,534,669
Financial liabilities			
Trade and other payables (Note 15)	-	225,952	225,952
Due to related parties (Note 20)	-	127,876	127,876
Total financial liabilities	-	353,828	353,828

GRUMETI CONSTRUCTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

6. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of debt, which includes trade and other payables plus amounts due to related parties less cash and cash equivalents, and equity attributable to equity holders of the Company, comprising of issued capital and accumulated losses.

The Board of Directors reviews the capital structure on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on the review, the Company analyses and assesses the gearing ratio to determine the level and its optimality.

The constitution of capital managed by the Company is as shown below:

	2018	2017
	TZS'000	TZS'000
Share capital	14,510,460	13,030,840
Accumulated losses	(12,786,979)	(10,955,227)
Equity	1,723,481	2,075,613
Trade and other payables	782,607	297,929
Amounts due to related parties	255,427	127,876
Less: Cash and cash equivalents	(646,298)	(879,282)
Net debt	391,736	(453,477)
Total capital	2,115,217	1,622,136
Gearing (Net debt to total capital)	19%	N/A

7. REVENUE FROM CONTRACTS WITH CUSTOMERS

Construction projects - Grumeti Reserves, Grumeti Fund and Grumeti Air	5,392,098	2,423,163
Construction projects - Grumeti Reserves for SH Lodge/Kilima	-	4,220,018
	5,392,098	6,643,181
Disaggregation of revenue:		
Grumeti Reserves - direct contracts	4,763,461	1,600,777
Grumeti Fund	628,637	681,456
Grumeti Air	-	140,931
Grumeti Reserves - SH Lodge	-	4,220,018
Grumeti Reserves - Kilima One Lodge	-	-
	5,392,098	6,643,181

GRUMETI CONSTRUCTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 TZS'000	2017 TZS'000
8. CONTRACT COSTS		
Construction of SH Lodge/FaruFaru - costs incurred	1,325,842	3,583,744
Building supplies and other project direct costs	3,402,920	2,425,823
	4,728,762	6,009,567
9. OTHER INCOME		
Income from vehicle hire	34,240	26,148
Sale of slates	758	17,490
Sale of blocks	4,465	7,513
Miscellaneous income	46,304	9,179
Foreign exchange gain	7,246	68,472
	93,013	128,802
10. GENERAL AND ADMINISTRATIVE EXPENSES		
Employment costs (Note 11)	656,121	530,501
Management fee	27,307	136,634
Audit fees	27,417	30,499
Tax consultation fees	16,574	20,333
Repairs and maintenance	53,060	29,529
Professional and legal fees	479,601	294,313
Insurance expenses	4,993	1,778
Telephone and utilities	11,171	7,919
Household expenses	74,892	16,589
Travel expenses	46,470	32,061
Taxes and licenses	28,249	81,632
Vehicle expenses	99,167	11,070
Other administrative expenses	871,985	151,116
Small equipment	11,862	1,165
Depreciation of property and equipment	162,797	275,912
	2,571,667	1,621,051
11. EMPLOYMENT COSTS		
Salaries, wages and other employee costs	597,447	423,130
Social security contributions - Company contributions	35,100	35,305
Skills and Development Levy (SDL) - current year	23,574	17,209
Skills and Development Levy (SDL) - prior year assessments	-	54,857
	656,121	530,501
12. TRADE AND OTHER RECEIVABLES		
Trade receivables	317,919	198,868
Other receivables	10,227	47,373
Advances to employees	150,609	27,204
Prepayments	12,100	21,965
	490,855	295,410

Trade and other receivables are non interest bearing and due on 30 - 60 days terms. No amounts were past due and the probability of default was insignificant.

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 TZS'000	2017 TZS'000
13. CASH AND BANK BALANCES		
Bank balances	573,540	812,608
Cash balances	72,758	66,674
	<u>646,298</u>	<u>879,282</u>

For the purpose of the statement of cash flows, cash and cash equivalents comprise the above balances. The probability of default for the bank balances was insignificant.

14. SHARE CAPITAL

Authorized:

2,000,000 Ordinary shares at TZS 10,000 each	<u>20,000,000</u>	<u>20,000,000</u>
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Issued share capital

At 1 January [1,303,084 (2016: 322,473) Ordinary shares at TZS 10,000 each]	13,030,840	3,224,730
Issued during the year	<u>1,479,620</u>	<u>9,806,110</u>
At 31 December [1,451,046 (2017: 1,303,084) Ordinary shares at TZS 10,000 each]	<u>14,510,460</u>	<u>13,030,840</u>
Issued share capital is further analysed as follows:		
Issued and paid up	14,510,450	13,030,830
Issued and not paid up	10	10
	<u>14,510,460</u>	<u>13,030,840</u>

15. TRADE AND OTHER PAYABLES

Trade payables	239,311	184,799
Other payables	543,296	113,130
	<u>782,607</u>	<u>297,929</u>

Trade and other payables are stated at their nominal value. Trade payables are non-interest bearing and are normally settled between 15 to 30 days after the date of the invoice.

16. SHORT TERM BORROWINGS

At 1 January	-	-
Loan received during the period	1,479,625	940,757
Conversion of the loan to equity	<u>(1,479,625)</u>	<u>(940,757)</u>
At 31 December	<u>-</u>	<u>-</u>

During the year, the Company received financial assistance from its parent company, Grumeti Reserves Limited, in the form of short term borrowings. The amount of the borrowings received was converted to share capital by way of issuance of additional shares to Grumeti Reserves Limited.

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

17. PROPERTY AND EQUIPMENT

At 31 December 2018

Cost	Motor vehicles TZS'000	Furniture, fittings and equipment TZS'000	Total TZS'000
At 1 January 2018	1,323,131	316,294	1,639,425
Additions	258,239	44,128	302,367
At 31 December 2018	1,581,370	360,422	1,941,792
Depreciation			
At 1 January 2018	1,143,438	44,291	1,187,729
Charge for the year	119,060	43,737	162,797
At December 2018	1,262,498	88,028	1,350,526
Net carrying amount at 31 December 2018	318,872	272,394	591,266

At 31 December 2017

Cost	Motor Vehicles TZS'000	Furniture, fittings and equipment TZS'000	Total TZS'000
At 1 January 2017	1,292,131	62,958	1,355,089
Additions	31,000	253,336	284,336
At 31 December 2017	1,323,131	316,294	1,639,425
Depreciation			
At 1 January 2017	899,998	11,819	911,817
Charge for the year	243,440	32,472	275,912
At 31 December 2017	1,143,438	44,291	1,187,729
Net carrying amount at 31 December 2017	179,693	272,003	451,696

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

18. TAX

	2018 TZS '000	2017 TZS '000
Charge for the year		
Alternative Minimum Tax (AMT)	16,434	20,316
Total tax charge for the year	<u>16,434</u>	<u>20,316</u>
Tax (receivable)/payable		
Opening balance	(120,385)	34,174
Charge for the year	16,434	20,316
Paid during the year	(116,801)	(174,875)
Closing balance	<u>(220,752)</u>	<u>(120,385)</u>

The Company has accumulated tax losses of TZS 12,098,900,686 (2017: TZS 10,766,287,273). However, Alternative Minimum Tax (AMT) at the rate of 0.3% of revenue for the year has been accrued as required by the Tanzanian Income Tax Act which requires entities that have had no taxable income for three consecutive income tax periods to pay AMT.

A reconciliation between the tax expense and the product of accounting loss multiplied by the tax rate for the year is as follows:

Loss before tax	<u>(1,815,318)</u>	<u>(858,635)</u>
Income tax at 30%	(544,595)	(257,591)
Expenses not allowed for tax purposes	143,168	2,541
Deferred tax credit not recognised	401,427	255,050
Alternative minimum tax	16,434	20,316
Income tax charge for the year	<u>16,434</u>	<u>20,316</u>

19. DEFERRED TAX

The net deferred tax asset below has not been recognized in the statement of financial position because the Directors do not expect the Company to generate sufficient taxable profits in the forecastable future against which the deferred tax asset can be utilized. The deferred tax asset is made up as follows:

	2018 TZS'000	2017 TZS'000
Deferred tax liabilities/(assets)		
Accelerated depreciation of property and equipment	(17,324)	(52,876)
Unrealised foreign exchange (loss)/gains	(5,008)	32,186
Tax losses carried forward	(3,629,670)	(3,229,886)
Net deferred tax asset	<u>(3,652,003)</u>	<u>(3,250,575)</u>
Movement in deferred tax asset		
Opening balance	(3,250,575)	(2,995,526)
Credit for the year	(401,427)	(255,050)
Closing balance	<u>(3,652,003)</u>	<u>(3,250,575)</u>

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

20. RELATED PARTY TRANSACTIONS AND BALANCES

Related party relationships exist between the Company, its shareholders, other companies under common ownership or control and the Directors of the Company.

	2018 TZS'000	2017 TZS'000
(i) The following transactions were carried out with related parties:		
Sale of goods and services: Related party		
Construction projects	5,392,098	5,656,767
Sale of blocks	4,465	7,513
Vehicle hire	34,240	25,579
Sale of slates	758	17,490
	<u>5,431,561</u>	<u>5,707,349</u>
(ia) Disaggregation of revenue:		
Revenue from Sale of blocks		
Grumeti Reserves - direct contracts	<u>4,465</u>	<u>7,513</u>
Revenue from Vehicle hire		
Grumeti Reserves - direct contracts	17,530	15,448
Grumeti Fund	8,611	8,420
Grumeti Air	8,099	1,711
	<u>34,240</u>	<u>25,579</u>
Revenue from Sale of Slates		
Grumeti Reserves - direct contracts	<u>758</u>	<u>17,490</u>
Purchase of goods and services:		
Management fees - Grumeti Reserves Ltd	<u>27,307</u>	<u>136,634</u>
Short term loans received/issued capital		
Grumeti Reserves Limited	<u>1,479,625</u>	<u>940,757</u>
(ii) Amounts due from related parties		
Grumeti Reserves Limited (sales receivable)	264,349	381,932
Mr. Daniel Mwasandube (Unpaid share capital)	10	10
	<u>264,359</u>	<u>381,942</u>
(iii) Amounts due to related parties		
Grumeti Reserves Limited	<u>255,427</u>	<u>127,876</u>
	<u>255,427</u>	<u>127,876</u>
Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. Amounts due from/to related parties are normally settled in 30 - 60 days terms. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Company has not recorded any impairment loss on amounts owed by related parties (2017: Nil) as the probability of default is insignificant. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which the related parties operate.		
(iv) Compensation for key management personnel		
Key management personnel are described as the persons having responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key Management compensation includes remuneration of the principal officers of the Company.		
Salaries and other short-term employee benefits	78,287	111,885
Post employment benefits - social security contributions	7,421	10,605
	<u>85,708</u>	<u>122,490</u>

GRUMETI CONSTRUCTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

20 RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(v) Directors' remuneration

The Directors were not paid any remuneration by the Company.

	2018 TZS'000	2017 TZS'000
21 INVENTORIES		
Consumables	<u>671,144</u>	<u>398,026</u>

No inventories were impaired as at year-end (2017: Nil).

22 ULTIMATE PARENT COMPANY

The Company is a limited liability company, incorporated and domiciled in Tanzania. The immediate holding entity is Grumeti Reserves Limited registered in Tanzania and the ultimate holding entity is Grumeti Community and Conservation LLC, registered in Connecticut, United States of America.

23 COMMITMENTS AND CONTINGENCIES

Contigent liabilities

The normal procedure for determining the final tax liabilities in Tanzania involves the Company filing its self-assessed tax returns with the Tanzania Revenue Authority (TRA) followed by TRA performing its own review of the Company's submissions and issuing a notice of final tax assessment to the Company. It is possible that the final tax liability as determined by TRA following its review may differ from the liability determined by the Company due to differences in the interpretation of the tax laws. In such cases, procedures are in place for the Company to object and appeal against the TRA assessments. It is common that the timeframe from the Company's submission of its final tax return and for TRA performing its review and issuing notice of final tax assessment may be several months or years.

At 31 December 2018, the Company had no open tax assessments (2017: TZS 662 million relating to VAT).

Commitments

The Directors are not aware of any commitments as at year-end (2017: Nil).

24 EVENTS AFTER THE REPORTING PERIOD

At the date of signing the financial statements, the Directors are not aware of any matter that requires adjustment to or disclosure in the financial statements.