

ILLOVO DISTILLERS (TANZANIA) LIMITED

**ANNUAL REPORT
AND
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2023**

ILLOVO DISTILLERS (TANZANIA) LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2023

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ILLOVO DISTILLERS (TANZANIA) LIMITED

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

Directors

<u>Name</u>	<u>Nationality</u>	
GB Dagleish	South African	(Chairman)
GH Williams	South African	(Managing Director)
A Lubbe	South African	

Registered office

Kidatu
P. O. Box 50
Kidatu, Morogoro
Tanzania

Other office

ARis House
Haile Selassie Road, Osyterbay
Mwai Kibaki Road
Dar es Salaam, Tanzania

Legal advisor

Lawcare Chambers
Plot No 1/1, Unit 6, 3rd Floor, Maktaba Complex
Bibi Titi Mohamed/Ali Hassan Mwinyi Road
P. O. Box 38591
Dar es Salaam, Tanzania

Auditor

Ernst & Young
P. O. Box 2475
EY House
162/1 – Mzinga Way 14111 Oysterbay Peninsular
Dar es Salaam, Tanzania

Bankers

CRDB Bank Plc Kilombero Branch P. O. Box 351 Kidatu, Morogoro Tanzania	Stanbic Bank (Tanzania) Limited Ali Hassan Mwinyi/Kinondoni Road P. O. Box 72647 Dar es Salaam Tanzania
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ILLOVO DISTILLERS (TANZANIA) LIMITED

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

The directors are pleased to present their report and the audited financial statements of Illovo Distillers (Tanzania) Limited (the "Company") for year ended 31 August 2023, which disclose the state of financial affairs of the Company.

1. INCORPORATION

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

2. PRINCIPAL ACTIVITY

The Company owns one distillery plant located in the Kilosa District of Morogoro Region. The Company's principal activity is production and sale of extra neutral alcohol. The main by-product of the process is condensed molasses solids, which is mixed with fertilizer to make liquid fertilizer.

3. OWNERSHIP

Illovo Group Holding Limited, a company incorporated in Mauritius holds 22.13% (2022: 80%) of the Company's equity, and 77.87%(2022: 20%) is held by ABF Overseas Ltd, a company incorporated in UK .

4. STAKEHOLDERS' RELATIONS

The Company continues to enjoy positive relations with its key stakeholders including suppliers, customers, shareholders, current and potential employees, Government and regulators, and the society in general. It continues to balance the interests of its stakeholders and exceed their expectations.

5. RELATED PARTY TRANSACTIONS

Details of transactions and balances with related parties are disclosed in note 21 to the financial statements. The transactions with related parties were in the normal course of business.

6. RESULTS FOR YEAR

The results for year under review are set out in the statement of profit or loss and other comprehensive income and are summarised below:

	Year ended 31 August 2023 TZS'000	Year ended 31 August 2022 TZS'000
Profit before tax	26,675,211	20,723,289
Income tax charge	(8,120,317)	(6,767,875)
Profit for year	<u>18,554,894</u>	<u>13,955,414</u>

ILLOVO DISTILLERS (TANZANIA) LIMITED

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

7. BUSINESS PERFORMANCE OVERVIEW

During the year under review production of Extra Neutral Alcohol (ENA) was 13,185 kilolitres (2022: 14,210 kilolitres), lower by 1,025 kilolitres compared to previous year. The decrease in ENA production is attributable to unavailability of raw materials (molasses) due to early closure of K1 factory and inconsistent K2 factory performance in March 22/23 season impacted with rains also the delayed start of March 23/24 production season following extended rains. Also, there were inconsistency supply of utility in line with K2 factory boiler #1 challenges in March 23/24 season.

ENA sales for year stood at 12,789kl (2022: 14,165kl), lower by 1,376kl reflecting a decrease by 9,71% mainly due to unavailability of the product to sale caused by decrease in production during the year.

Operating profit for the year was TZS 18,195 million (2022: 18,627 million), reflecting a decrease by TZS 1,516 million (8.16%) explained by the decrease, both in ENA sales and production.

8. CURRENT AND FUTURE DEVELOPMENT

The Company will continue to produce high quality product and meet our customers expectation. This aims to grow in a sustainable manner, while managing both costs and risks. Focus will be placed on meeting the needs of our customers, by improving the efficiency and effectiveness of route to market strategy and enhancing the productivity of our people.

9. DIVIDEND

There was no dividend declared or paid during the financial year 2023 (2022: Nil). The directors also do not propose a dividend for the year ended 31 August 2023.

10. SOLVENCY

The state of financial affairs of the Company is set out in the statement of financial position. The directors consider the Company to be solvent within the meaning ascribed by the Companies Act, 2002 of Tanzania.

11. RISK MANAGEMENT

The Company is subjected to different internal and external risks. Risk assessment is made to analyse severity of the risks and impact on the operations. The process of reviewing and updating risk management system frequently has become one of the fundamental components for sustainability of the business. It has given the Company key insights and thoughts based on the inherent risks facing the business with residual actions being put in place to mitigate the primary risks which are reviewed annually by the Board Audit and Risk Committee to ensure all enterprise and financial risks are evaluated, and corrective mitigates are applied. The Board has tasked the management to ensure adequate internal financial and operational control systems are developed, maintained and made fully functional on an ongoing basis in order to provide reasonable assurance on the effectiveness and efficiency of operations. This will ensure that the Company's assets are safeguarded, and that there is maximum possible compliance to the applicable laws and regulations and reliability of the accounting records. The Business will continue to be open-minded, proactive and vigilant in addressing any arising risk movement profile using the available internal resources and the support from other key stakeholders within and outside Tanzania.

Detailed financial risks have been explained in Note 4 to the financial statements.

ILLOVO DISTILLERS (TANZANIA) LIMITED

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

12. ENVIROMENTAL AND SOCIAL SAFEGUARD

The Company is currently fully compliant with all the relevant environmental permits. The Company manages its environmental impact and promotes continuous improvements through various departments and there is a dedicated unit called Safety, Health, Environment, Risk and Quality (SHERQ) to that effect. . SHERQ assists other departments to ensure that environmental policy, standards, procedures, guidance, training and management tools are correctly implemented to ensure effective environmental and social management with minimum negative impact.

13. COMPETITIVE POSITION

The Company operates in a market that is so far Extra Neutral Alcohol (ENA) deficit. The Company will continue to leverage its competitive advantage through Route To Consumer (RTC) strategy and customer focus to meet their demands.

14. CORPORATE GOVERNANCE

The Board of Directors (the "Board") consists of four directors. The Board takes overall responsibility for the Company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, significant financial matters and reviewing the performance of management against business plans and budgets. The Board is responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The directors who served during year and to the date of this report were as follows:

<u>Name</u>	<u>Position</u>	<u>Qualification</u>	<u>Nationality</u>	<u>Age</u>	<u>Gender</u>	<u>Remarks</u>
GH Williams	Managing Director	Bom Finance Chartered Accountant CA (SA).	South African	56	M	Appointed on 1 December 2016
GB Dalglish	Director	MSc. Eng. Chemical Engineering MBA Finance	South African	58	M	Appointed on April 2012
DN Kasambala	Director	Chartered Institute of Management Accountants	Malawian	53	M	Resigned on 30 June 2023.
N Saayman	Director	PhD Chem. Engineering	South African	53	M	Resigned on 28 February 2023
A Lubbe	Director	BCom Marketing	South African	60	M	Appointed on 10 May 2023

The day-to-day activities of the Company are overseen by the Managing Director who is assisted by the following:

<u>Name</u>	<u>Position</u>
E Rousseau	Manufacturing – Director
F Fadhili	Finance – Director
D Mwakitwange	Human Resources - Director

ILLOVO DISTILLERS (TANZANIA) LIMITED

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

15. CORPORATE SOCIAL RESPONSIBILITY (CSR)

CSR focuses on environmental awareness, health and safety, and education and training. The monitoring and control of CSR is through corporate affairs department. During the year no donations were made.

16. POLITICAL AND CHARITABLE DONATIONS.

The Company did not make any political donations during the year ended 31 August 2023. Donations are made as part of corporate social responsibility to acknowledge the Company's responsibility to community social needs. During the year no donations were made.

17. WELFARE OF EMPLOYEES

Staff composition

The total number of staff as at year-end was 67 (2022: 63) comprising of 45 permanent and 22 non-permanent employees (2022: 43 permanent and 20 non-permanent employees). This workforce comprised of 9 female and 58 male employees (2022: 9 female and 54 male employees).

Relationship between management and employees

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.

Training

Training programs are done, both in house and externally, and are continually developed to ensure employees are adequately trained at all levels.

Medical treatment

All members of staff with dependants up to a maximum of four beneficiaries are availed with medical treatment from company-owned clinics as well as private and public hospitals on the Company's account.

Health and safety

The Company ensures that employees abide by the established policies and principles of health and safety 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.

10. DIRECTORS' INTEREST

No director held any direct interest in the ordinary share capital of the Company at the beginning of, during, or at the end of the year.

11. COMPANY SECRETARY

The Company Secretary during year and to the date of this report was LM Smith.

ILLOVO DISTILLERS (TANZANIA) LIMITED

**DIRECTORS' REPORT (Continued)
FOR THE YEAR ENDED 31 AUGUST 2023**

12. AUDITOR

The Company's external auditor, Ernst & Young, has expressed willingness to continue in office and is eligible for re-appointment. A resolution proposing the re-appointment of Ernst & Young as the external auditor of the Company for the financial year ending 31 August 2024 will be put to the Annual General Meeting.

BY ORDER OF THE BOARD



.....
GH Williams
Managing Director

Date: 29/12/2023



.....
GB Dalgleish
Board Chairman

ILLOVO DISTILLERS (TANZANIA) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 AUGUST 2023

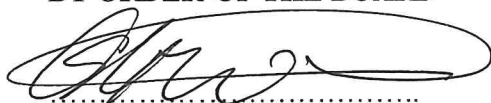
The Companies Act, 2002 of Tanzania requires the directors to prepare financial statements for each financial year which present fairly the state of financial affairs of the Company as at the end of the financial year and of the operating results for that year. It also requires that the directors ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Company's directors are responsible for the preparation of financial statements that present fairly, the Company's financial results and position in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 of Tanzania, and for such internal controls as the directors determine are necessary to enable the preparation of financial statement that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The auditor is responsible for reporting on whether the audited financial statements are fairly presented, in all material respects, in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 of Tanzania.

The directors have assessed the ability of the Company to continue as going concern and have no reason to believe that the Company will not be a going concern for the foreseeable future.

BY ORDER OF THE BOARD



.....
GH Williams
Managing Director



.....
GB Dagleish
Board Chairman

INDEPENDENT AUDITOR'S REPORT
To the shareholders of Illovo Distillers (Tanzania) Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

We have audited the financial statements of Illovo Distillers (Tanzania) Limited set out on pages 12 to 45, which comprise the statement of financial position as at 31 August 2023, 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 Illovo Distillers (Tanzania) Limited as at 31 August 2023, 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 of 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 opinion.

Other information

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

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

Responsibility 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.

INDEPENDENT AUDITOR'S REPORT (Continued)
To the shareholders of Illovo Distillers (Tanzania) Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

Responsibility of the directors for financial statements (Continued)

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

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of 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.

INDEPENDENT AUDITOR'S REPORT (Continued)
To the shareholders of Illovo Distillers (Tanzania) Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

Auditor's responsibility for the audit of the financial statements (Continued)

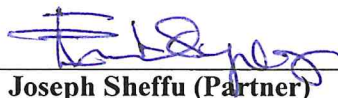
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.



Joseph Sheffu (Partner)
FCPA 867

For and behalf of Ernst & Young
Certified Public Accountants
Dar es Salaam, Tanzania



Date: 01 February 2024

ILLOVO DISTILLERS (TANZANIA) LIMITED**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2023**

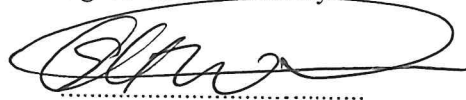
		2023 TZS'000	2022 TZS'000
Revenue from contracts with customers	5	30,609,845	32,391,230
Cost of sales	6	<u>(10,732,280)</u>	<u>(10,409,997)</u>
Gross profit		19,877,565	21,981,233
Other income	7	1,201,092	58,459
Selling and distribution expenses	8	(1,635,510)	(1,682,762)
Administration expenses	9	<u>(1,247,759)</u>	<u>(1,729,290)</u>
Operating profit		18,195,388	18,627,640
Finance income	10	8,480,633	2,097,672
Finance cost	10	<u>(810)</u>	<u>(2,023)</u>
Profit before tax		26,675,211	20,723,289
Income tax expense	11	<u>(8,120,317)</u>	<u>(6,767,875)</u>
Profit for year		18,554,894	13,955,414
Total comprehensive income for year, net of tax		<u>18,554,894</u>	<u>13,955,414</u>

ILLOVO DISTILLERS (TANZANIA) LIMITED

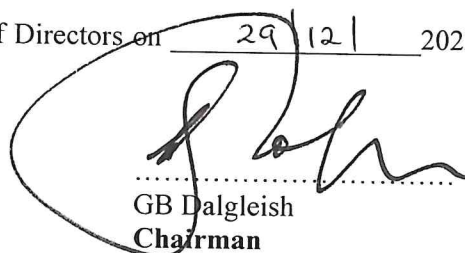
**STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2023**

	Notes	2023 TZS '000	2022 TZS '000
ASSETS			
Non-current assets			
Property, plant and equipment	13	42,404,287	44,889,613
Long term loan to related parties	21(v)	153,074,086	10,015,534
		195,478,373	54,905,147
Current assets			
Inventories	14	2,166,007	2,313,369
Trade and other receivables	15	4,572,051	6,311,090
Cash and bank balances	16	14,279,107	48,401,038
		21,017,165	57,025,497
TOTAL ASSETS		216,495,538	111,930,644
EQUITY AND LIABILITIES			
Equity			
Share capital	17	117,500,000	32,500,000
Share premium	17	3,662,575	3,662,575
Retained earnings	18	81,219,810	62,664,916
		202,382,385	98,827,491
Non-current liabilities			
Deferred tax liability	12	8,503,079	8,384,924
Current liabilities			
Trade and other payables	19	1,872,197	1,480,738
Contract liabilities	20	694,231	424,817
Due to related parties	21(iii)	2,230,853	1,545,487
Current tax liabilities	11(c)	812,793	1,267,187
		5,610,074	4,718,229
TOTAL EQUITY AND LIABILITIES		216,495,538	111,930,644

The financial statements were approved by the Board of Directors on 29/12/2023 and were signed on its behalf by:



GH Williams
Director



GB Dalgleish
Chairman

ILLOVO DISTILLERS (TANZANIA) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2023**

	Ordinary share capital TZS'000	Share premium TZS'000	Retained earnings TZS'000	Total TZS'000
Balance as at 1 September 2022	32,500,000	3,662,575	62,664,916	98,827,491
New capital issued and paid	85,000,000	-	-	85,000,000
Total comprehensive income for the year, net of tax	<u>-</u>	<u>-</u>	<u>18,554,894</u>	<u>18,554,894</u>
Balance as at 31 August 2023	<u>117,500,000</u>	<u>3,662,575</u>	<u>81,219,810</u>	<u>202,382,385</u>
Balance as at 1 September 2021	32,500,000	3,662,575	48,709,502	84,872,077
Total comprehensive income for the year, net of tax	<u>-</u>	<u>-</u>	<u>13,955,414</u>	<u>13,955,414</u>
Balance as at 31 August 2022	<u>32,500,000</u>	<u>3,662,575</u>	<u>62,664,916</u>	<u>98,827,491</u>

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2023

1. GENERAL INFORMATION

The financial statements of Illovo Distillers (Tanzania) Limited (the “Company”) for the year ended 31 August 2023 were authorised for issue in accordance with a resolution of the Board of Directors. The Company is a limited liability company incorporated and domiciled in Tanzania. Further information on the Company is disclosed under Corporate Information and the Directors’ Report.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the requirements of the Companies Act, 2002 of Tanzania. The financial statements have been prepared under the historical cost convention, except where otherwise stated.

The financial statements are presented in Tanzania Shillings (TZS) rounded to the nearest thousand (TZS’000) except where indicated otherwise.

For the purpose of the Companies Act, 2002 of Tanzania, in these financial statements the balance sheet is represented by the statement of financial position and the profit and loss account is represented by the statement of profit or loss and other comprehensive income.

The Company has prepared the financial statements on the basis that it will continue to operate as a going concern.

(b) New and amended standards and interpretations

(i) New and amended standards and interpretations effective during the year

The accounting policies applied are consistent with those used in the previous year except as indicated below:

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2022, unless otherwise stated.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. This amendment had no impact on the financial statements of the company.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) New and amended standards and interpretations effective during the year (Continued)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits Entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items Produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be Applied retrospectively to items of property, plant and equipment made available for use on or after the Beginning of the earliest period presented when the entity first applies the amendment. This amendment had no impact on the financial statements of the company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a ‘directly related cost approach’. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. This amendment had no impact on the financial statements of the company.

IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent’s consolidated financial statements, based on the parent’s date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The improvement had no impact to the company.

IFRS 9 Financial Instruments - Fees in the ‘10 per cent’ test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. There is no similar amendment proposed for IAS 39.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The improvement had no impact to the company.

IAS 41 Agriculture - Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) New and amended standards and interpretations effective during the year (Continued)

An entity applies the amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. The improvement had no impact to the company.

(ii) New and amended standards and interpretations issued but not yet effective

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of Insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for Insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive Model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general Model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before. The date it first applies IFRS 17. This standard is not applicable to the Company.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for Classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the company.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) New and amended standards and interpretations issued but not yet effective

Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The standard is effective for annual periods beginning on or after 1 January 2024. The amendment will not have an impact to the company.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments may impact the accounting policy disclosures of entities. Determining whether accounting policies are material or not requires use of judgement. Therefore, entities are encouraged to revisit their accounting policy information disclosures to ensure consistency with the amended standard. The standard is effective for annual periods beginning on or after 1 January 2023. The company is assessing the impact of the amendment.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The standards will not have an impact to the company.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12.30. Classes of financial instruments

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. The standard is effective for annual periods beginning on or after 1 January 2023. The company is assessing the impact of the amendment

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Summary of significant accounting policies

Revenue recognition

Revenue represents income arising in the course of an entity'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) discounts, rebates and other similar allowances.

Revenue from the sale of goods, as part of the ordinary activities, is recognized as recurring revenue. 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.

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).

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 recognized 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.

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 entity transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the entity performs under the contract.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Summary of significant accounting policies (Continued)

Property, plant and equipment

All categories of property, plant and equipment are initially recorded at historical cost. Subsequently, the assets are stated at historical costs excluding day to day servicing, less accumulated depreciation and accumulated impairment in value. Historical costs include 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they occur.

Depreciation is calculated on a straight-line basis at annual rates estimated to write-off the assets over their expected useful lives. Depreciation commences when the assets are ready for their intended use. Costs incurred on land are not depreciated as the land rights appreciate over time.

The estimated useful economic lives of property, plant and equipment fall within the following ranges:

Buildings and other permanent works	20-60 years
Plant and machinery	5-40 years
Vehicles	5-8 years
Furniture and office equipment	5-10 years

The assets' residual values, useful lives are reviewed and adjusted if appropriate, at each financial year end considering market conditions and projected disposal values. In assessing useful lives, maintenance programmes and technological innovations are considered. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between proceeds received and the carrying amount of the asset, and is recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take an extended year 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss for year in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of spares is determined on the average cost method. Cost of finished goods comprises of all costs of purchase, costs of conversion and other costs incurred in bringing such inventories to their present condition and location. Redundant and

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Summary of significant accounting policies (Continued)

Inventories (Continued)

slow-moving inventories are identified and written down to their net realisable values. Net realisable value represents the estimated selling prices less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount of the obligation can be made. Provisions are measured at the directors best estimate of the expenditure required to settle the obligation at the end of each reporting year, and are discounted to present value where the effect is material.

Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than its functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting year, monetary items denominated in foreign currencies are retranslated to Tanzanian shillings at the rates prevailing at that date. Non-monetary items carried at fair value that is denominated in foreign currency are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The resulting differences arising

from conversion and translation of foreign currencies are dealt with in profit or loss in year in which they arise.

Employee benefits

The Company pays fixed contributions at the rate of 10% of the employee's salary to publicly administered pension funds. The Company has no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The contributions are recognised as employee benefit expenses when they are due.

Taxation

Current income tax

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised outside profit or loss is recognised outside profit or loss in correlation to the underlying transaction either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Summary of significant accounting policies (Continued)

Taxation (Continued)

Deferred tax

Deferred tax is provided for using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside of profit or loss is recognised outside of profit or loss in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax

Revenues, expenses and assets are recognised net of the amount of Value Added Tax, except:

- Where the Value Added Tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the Value Added Tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of Value Added Tax included.

The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Summary of significant accounting policies (Continued)

Impairment of non-financial assets

Assets that are subject to depreciation 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 purpose of assessing impairment, assets are grouped at the lowest levels for which there are separable identifiable cash flows (cash-generating units).

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuing of new shares are shown in equity as a deduction, net of tax, from proceeds.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in year in which the dividends are approved by the Company's shareholders.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities.

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 marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Summary of significant accounting policies (Continued)

Financial assets (Continued)

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 de-recognition (equity instruments)
- Financial assets at fair value through profit or loss

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 bank balances and trade and other receivables.

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 Company 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.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Summary of significant accounting policies (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).

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- **Probability of Default (PD):** The PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **Exposure at Default (EAD):** The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **Loss Given Default (LGD):** The LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The Company considers a financial asset in default when contractual payments are 30 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.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Summary of significant accounting policies (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or financial liabilities at amortised cost. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of financial liabilities at amortised cost, plus directly attributable transaction costs.

The Company's financial liabilities include borrowings and trade and other payables, all of which are categorised as financial liabilities at amortised cost.

Subsequent measurement

After initial recognition, trade and other payables and bank overdrafts are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in profit or loss.

De-recognition

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 a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Offsetting of 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand and time deposits with banks whose original maturities do not exceed three months less bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Summary of significant accounting policies (Continued)

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 year, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting year

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 year, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting year

The Company classifies all other liabilities as non-current.

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgments

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting year. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future years. In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Company as lessee

The Company has entered into lease agreements for space for use in the Company's operations. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the leased assets and the present value of the minimum lease payments not amounting to substantially all of the fair value of the leased assets, that it does not take on all the significant risks and rewards of ownership of the leased assets and accounts for the arrangements as operating leases.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements (Continued)

Property, plant and equipment

Judgements are made by the directors in determining the useful lives and residual values of property, plant 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 utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. The depreciation rates are based on the estimated useful lives of the assets.

More information on property, plant and equipment is included in note 13.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the country.

More information on taxes including the carrying amounts of the balances affected is presented in notes 11 and 12.

4. FINANCIAL RISK MANAGEMENT

Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net external borrowings divided by total capital. The total capital structure of the Company consists of debt, which includes borrowings less cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, share premium and retained earnings.

The Company's strategy is to maintain a gearing ratio of less than 100%.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

4. FINANCIAL RISK MANAGEMENT (Continued)

Capital management (Continued)

The Company had no borrowings as at year-end (2022: Nil) and its capital was made up as follows:

	2023	2022
	TZS '000	TZS '000
Share capital	117,500,000	32,500,000
Share premium	3,662,575	3,662,575
Retained earnings	81,219,810	62,664,916
Total equity	<u>202,382,385</u>	<u>98,827,491</u>
Less: Cash and cash equivalents	(14,279,107)	(48,401,038)
Net debt	<u>(14,279,107)</u>	<u>(48,401,038)</u>
Total capital	<u>188,103,278</u>	<u>50,426,453</u>

Financial instruments by category

The Company's financial instruments by category are disclosed in the below table.

	2023	2022
	TZS '000	TZS '000
Debt instruments at amortised cost:		
Loan to related party	153,074,086	10,015,534
Trade and other receivables ¹	3,914,176	5,667,160
Cash and bank balances	14,279,107	48,401,038
	<u>171,267,369</u>	<u>64,083,732</u>
Financial liabilities at amortized cost:		
Amounts due to related parties	2,230,853	1,545,487
Trade and other payables ²	1,017,140	982,521
	<u>3,247,993</u>	<u>2,528,008</u>

¹Prepayments and tax related deposits are excluded from the trade and other receivables balances.

²Statutory liabilities and deferred income are excluded from the trade and other payables balances.

The above financial assets and financial liabilities are carried at amortised cost and their carrying values are a reasonable approximation of their fair values.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

4. FINANCIAL RISK MANAGEMENT (Continued)

Financial risks

The main risks arising from the Company's financial instruments are liquidity risk, market risk and credit risk. Market risk comprises interest rate risk, foreign exchange risk and price risk. The Company does not have significant exposure to price risk since no price sensitive financial instruments are held.

The Company's overall risk management programmes focus 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 under policies approved by the Board of Directors. Risk management policies and systems are reviewed regularly to reflect changes in the 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.

Credit risk management

Credit risk consists of deposits held with banks, loans with related parties and trade and other receivables. Trade receivables comprise a widespread customer base and the Company performs ongoing credit evaluations on the financial condition of its customers. The amounts presented in the statement of financial position are net of allowances for expected credit losses, estimated by the management based on past loss experience and cognizant of the current and future macroeconomic conditions. The probability of default by /the counter parties as at year-end was minimal.

The Company's maximum exposure to credit risk as at year-end was as follows:

	Trade and other receivables TZS'000	Loans to related parties TZS'000	Bank balances TZS'000	Total exposure TZS'000
At 31 August 2023				
Not past due	3,316,706	153,074,086	14,279,107	170,669,899
Past due but not impaired	597,470	-	-	597,470
Net carrying amount	3,914,176	153,074,086	14,279,107	171,267,369
At 31 August 2022				
Not past due	5,208,542	10,015,534	48,401,038	63,625,114
Past due but not impaired	458,618	-	-	458,618
Net carrying amount	5,667,160	10,015,534	48,401,038	64,083,732

In determining the recoverability of the credit exposures, the Company considers any change in the credit quality of the exposure from the date credit was initially granted up to the reporting date. The concentration of the credit risk is limited due to the customer base being widespread and unrelated.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

4. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk management (Continued)

The ageing analysis of the gross trade and other receivables as at year-end was as follows:

	2023 TZS'000	2022 TZS'000
Current	1,587,103	2,962,090
30 days	1,729,603	2,246,452
60 days	597,470	203,418
Above 60 days	-	255,200
	<u>3,914,176</u>	<u>5,667,160</u>

Liquidity risk management

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.

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate financing facilities are maintained. The directors may from time to time, at their discretion, raise or borrow funds for the Company as they deem fit. There are no borrowing limits in the Articles of Association of the Company.

The table below presents the cash flows payable by the Company for non-derivative financial liabilities by the remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual cash flows, as the Company manages the inherent liquidity risk based on expected cash outflows.

	1-3 months TZS'000
As at 31 August 2023	
Amounts due to related parties	2,230,853
Trade and other payables	1,017,140
Total financial liabilities	<u>3,247,993</u>
As at 31 August 2022	
Amounts due to related parties	1,545,487
Trade and other payables	982,521
Total financial liabilities	<u>2,528,008</u>

ILLOVO DISTILLERS (TANZANIA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 AUGUST 2023**

4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk management

i. Interest rate risk

The Company is exposed to interest rate risk as it invests and borrows funds both at fixed and floating rates. The risk is closely monitored by management. The table below indicates the exposure to interest rate risk. Included are the Company's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual reprising or maturity dates.

	<12 months TZS'000	Non-interest bearing TZS'000	Total TZS'000
At 31 August 2023			
Financial assets			
Trade and other receivables	-	3,914,176	3,914,176
Long term loan -related parties	145,000,000	8,074,086	153,074,086
Cash and bank balances	-	14,279,107	14,279,107
	<u>145,000,000</u>	<u>26,267,369</u>	<u>171,267,369</u>
Financial liabilities			
Trade and other payables	-	614,824	614,824
Amounts due to related parties	-	2,230,853	2,230,853
	<u>-</u>	<u>2,845,677</u>	<u>2,845,677</u>
Interest sensitivity gap	<u>145,000,000</u>		
At 31 August 2022			
Financial assets			
Trade and other receivables	-	5,667,160	5,667,160
Cash and bank balances	41,853,100	6,547,938	48,401,038
	<u>41,853,100</u>	<u>12,215,098</u>	<u>54,068,198</u>
Financial liabilities			
Trade and other payables	-	982,521	982,521
Amounts due to related parties	-	1,545,487	1,545,487
	<u>-</u>	<u>2,528,008</u>	<u>2,528,008</u>
Interest sensitivity gap	<u>41,853,100</u>		

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk management (Continued)

i. Interest rate risk (Continued)

	2023 TZS'000	2022 TZS'000
If interest rates had been 50 basis points higher/lower and all other variables held constant, the Company's profit before tax for the year would increase/ decrease by:	<u>13,775,000</u>	<u>651,757</u>
If interest rates had been 50 basis points higher/lower and all other variables held constant, the Company's equity for the year would increase/decrease by:	<u>9,642,500</u>	<u>456,230</u>

ii. Foreign currency risk

The Company enters into contracts denominated in foreign currencies including South Africa Rand (ZAR) and United States Dollars (USD). In addition, the Company has assets and liabilities denominated in foreign currencies. As a result, the Company is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates.

The Company's foreign exchange rate risk exposure relates mainly to the US Dollar and the SA Rand. The following table details the Company's sensitivity to a 10% increase or decrease in the exchange rates of the Tanzania Shilling against the relevant currencies:

(All amounts are in TZS'000)	2023		2022	
	USD	ZAR	USD	ZAR
Profit before tax	270,056	61,987	263,812	70,856
Equity	<u>189,039</u>	<u>43,391</u>	<u>184,668</u>	<u>49,912</u>

Foreign currency risk is managed by billing some customers in foreign currency so as to mitigate the foreign exchange risk. Under this arrangement, increases or decreases in the Company's foreign denominated liabilities are partially offset by gains or losses in foreign denominated debtors. Efforts are also made to ensure that liabilities are negotiated into local currency with prompt payment of outstanding liabilities. Management also negotiates for favourable exchange rates with the Company's bankers.

The Company's exposure to foreign currency risk is mainly to the currencies indicated in the table below which are the foreign currencies in which the Company transacts most. (All amounts are in TZS'000).

ILLOVO DISTILLERS (TANZANIA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 AUGUST 2023**

4. FINANCIAL RISK MANAGEMENT (Continued)

Market risk management (Continued)

ii. Foreign currency risk (Continued)

(All amounts are in TZS'000)	USD	ZAR	Total
At 31 August 2023			
Financial assets			
Cash and bank balances	2,238,677	-	2,238,677
Trade and receivables,	539,067	-	539,067
	<u>2,777,744</u>	<u>-</u>	<u>2,777,744</u>
Financial liabilities			
Trade and other payables	(77,181)	(145,788)	(222,969)
Amount due from related parties	-	(474,077)	(474,077)
	<u>(77,181)</u>	<u>(619,865)</u>	<u>(697,046)</u>
Net foreign currency gap	<u>2,700,563</u>	<u>(619,865)</u>	
At 31 August 2022			
Financial assets			
Cash and bank balances	1,637,976	-	1,637,976
Trade and receivables	1,084,712	-	1,084,712
	<u>2,722,688</u>	<u>-</u>	<u>2,722,688</u>
Financial liabilities			
Trade and other payables	(84,565)	(324,361)	(408,926)
Amounts due to related parties	-	(384,000)	(384,000)
	<u>(84,565)</u>	<u>(708,361)</u>	<u>(792,926)</u>
Net foreign currency gap	<u>2,638,123</u>	<u>(708,361)</u>	

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

	2023 TZS'000	2022 TZS'000
5. REVENUE FROM CONTRACTS WITH CUSTOMERS		
Sales - local market	29,301,272	28,868,864
Sales - export market	1,020,274	3,094,442
Sales to related party	288,299	427,924
	<u>30,609,845</u>	<u>32,391,230</u>

Sales volume for the year under review amounted to 12,789 kilolitres (2022: 14,165 kilolitres).

6. COST OF SALES

Material and chemicals	4,968,574	4,939,750
Steam and electricity	907,813	907,813
Depreciation	2,364,078	2,063,355
Plant and equipment maintenance	1,408,241	1,275,614
Staff costs – direct	1,082,873	983,690
Total production costs	<u>10,731,579</u>	<u>10,170,222</u>
Stock movement for year	701	239,775
	<u>10,732,280</u>	<u>10,409,997</u>

Production volume of Extra Neutral Alcohol for year amounted to 13,185 kilolitres (2022: 14,210 kilolitres).

7. OTHER INCOME

Foreign exchange gain	1,201,092	58,459
	<u>1,201,092</u>	<u>58,459</u>

8. SELLING AND DISTRIBUTION EXPENSES

Marketing commission	765,511	841,398
Freight charges on exports	869,999	841,364
	<u>1,635,510</u>	<u>1,682,762</u>

ILLOVO DISTILLERS (TANZANIA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 AUGUST 2023**

	2023	2022
	TZS'000	TZS'000
9. ADMINISTRATION EXPENSES		
Auditor's remuneration - audit fees	68,083	58,168
Management fees	68,487	77,046
Professional and consultancy fees	70,054	98,376
Insurance	159,151	148,305
Security costs	34,320	127,498
Computer costs	121,591	43,862
Travel and accommodation	16,597	21,933
Service levy	61,711	97,174
Foreign exchange loss	69,428	-
Increase in provisions	-	355,249
Other administration costs	578,337	701,679
	<u>1,247,759</u>	<u>1,729,290</u>

The following are the employment costs which are included in Note 6 and Note 9 above.

Salaries and wages	895,840	831,944
Staff performance bonus	34,322	20,888
Staff benefits and allowances	45,720	14,181
Pension – employer contribution	96,235	85,732
Statutory payroll costs	42,873	40,318
Medical costs	15,841	6,959
Trainings	-	1,785
	<u>1,130,831</u>	<u>1,001,807</u>

The costs are presented in the following statement of profit or loss and other comprehensive lines:

Cost of sales (Note 6)	1,082,873	983,690
Administration expenses (Note 9)	47,958	18,117
	<u>1,130,831</u>	<u>1,001,807</u>

10. FINANCE INCOME

Finance income

Interest income – bank deposits	422,081	2,082,137
Interest income –loan to related parties	8,058,552	15,535
	<u>8,480,633</u>	<u>2,097,672</u>
Interest cost – related parties	(810)	(2,023)
Total interest income recognised using the effective interest method	<u>8,479,823</u>	<u>2,095,649</u>

ILLOVO DISTILLERS (TANZANIA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 AUGUST 2023**

11. TAXATION

	2023	2022
	TZS'000	TZS'000
a. Income tax expense		
Income tax charge – current year	8,002,162	6,518,037
Income tax charge – prior year	-	188,526
Deferred tax charge – current year	116,571	(86,162)
Deferred tax credit – prior year	<u>1,584</u>	<u>147,474</u>
Total charge to profit or loss	<u>8,120,317</u>	<u>6,767,875</u>

b. Income tax expense reconciliation

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

Profit before tax	<u>26,675,211</u>	<u>20,723,289</u>
Tax effect at a statutory tax rate of 30% (2022: 30%)	8,002,563	6,216,987
Reconciling items:		
Tax effect of disallowable expenditure	116,170	214,888
Current tax – prior year	-	188,526
Deferred tax – prior year	<u>1,584</u>	<u>147,474</u>
	<u>8,120,317</u>	<u>6,767,875</u>

c. Current income tax payable

Opening balance	1,267,187	1,082,712
Charge for year	8,002,162	6,706,563
Current income tax paid during year	<u>(8,456,556)</u>	<u>(6,522,088)</u>
Closing balance	<u>812,793</u>	<u>1,267,187</u>

ILLOVO DISTILLERS (TANZANIA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 AUGUST 2023**

12. DEFERRED TAX LIABILITY

Opening balance	8,384,924	8,323,612
Charge to profit loss - current year	116,571	(86,162)
Credit to profit loss - prior years	1,584	147,474
Net charge/(credit) to profit or loss	118,155	61,312
Closing balance	8,503,079	8,384,924

	Opening balance TZS'000	Charge/(credit) to profit or loss TZS'000	Closing balance TZS'000
At 31 August 2023			
Accelerated depreciation of property, plant and equipment	8,396,155	(240,050)	8156,105
Leave pay	(12,368)	207	(12,161)
Bonus provision	(874)	-	(874)
Unrealised foreign exchange losses	2,011	357,998	360,009
	8,384,924	118,155	8,503,079
As at 31 August 2022			
Accelerated depreciation of property, plant and equipment	8,365,782	30,373	8,396,155
Leave pay	(7,593)	(4,775)	(12,368)
Bonus provision	(5,143)	4,269	(874)
Unrealised foreign exchange losses	(29,434)	31,445	2,011
	8,323,612	61,312	8,384,924

ILLOVO DISTILLERS (TANZANIA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 AUGUST 2022**

13. PROPERTY, PLANT AND EQUIPMENT

Cost	Land development TZS'000	Plant & machinery TZS'000	Vehicles & equipment TZS'000	Maintenance spares TZS'000	Capital work in progress TZS'000	Total TZS'000
At 31 August 2021	4,626,003	53,905,444	1,058,592	157,762	2,737,107	62,484,908
Additions	-	2,800,912	-	134,677	425,525	560,202
Transfer from work in progress	-	-	-	-	(2,800,912)	-
At 31 August 2022	4,626,003	56,706,356	1,058,592	292,439	361,720	63,045,110
Additions	-	-	-	-	8,485	8,485
Disposals	-	-	-	(129,733)	-	(129,733)
At 31 August 2023	4,626,003	56,706,356	1,058,592	162,706	370,205	62,923,862
Depreciation						
At 31 August 2021	(384,107)	(15,031,077)	(676,958)	-	-	(16,092,142)
Charge for year	(84,503)	(1,952,431)	(26,421)	-	-	(2,063,355)
At 31 August 2022	(468,610)	(16,983,508)	(703,379)	-	-	(18,155,497)
Charge for year	(84,503)	(2,253,154)	(26,421)	-	-	(2,364,078)
At 31 August 2023	(553,113)	(19,236,662)	(729,800)	-	-	(20,519,575)
Net carrying amount						
At 31 August 2022	4,157,393	39,722,927	355,213	292,439	361,720	44,889,613
At 31 August 2023	4,072,890	37,469,694	328,792	162,796	370,205	42,404,287

The maintenance spares relate to significant inventory items that are not held for sale or consumed in the production process; are necessary to benefit from an asset during more than one operating cycle and cannot be recouped through sale.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

14. INVENTORIES

	2023 TZS'000	2022 TZS'000
Raw materials and consumable stores	1,445,698	1,548,673
Plant overhaul costs	686,429	730,115
	<u>2,132,127</u>	<u>2,278,788</u>
Extra Neutral Alcohol stock	33,880	34,581
	<u>2,166,007</u>	<u>2,313,369</u>

The plant overhaul costs are attributable to production of inventories and absorbed as inventories costs recognised as an expense and included in cost of sales amounted to TZS 967 million (2022: TZS 705 million); as outline below:

The production season runs from June each year to March while plant overhaul costs are incurred during the off-production season between April and June in preparation for the new production season. The off crop costs are attributable to the production of inventories and amortised in proportion of the actual ENA produced against the budget for the season, which runs from June to February.

15. TRADE AND OTHER RECEIVABLES

Trade debtors	3,911,401	5,665,530
Advances and prepayments	657,875	617,205
Staff debtors	2,775	1,630
Other debtors	-	26,725
	<u>4,572,051</u>	<u>6,311,090</u>

Trade receivables are non-interest bearing and are generally on 30 days terms. As at year-end, there were no significant trade receivables that were impaired or for which the probability of default was more than insignificant.

16. CASH AND BANK BALANCES

Balances with banks	14,279,107	6,547,869
Interest bearing placements – maturing within 3 months	-	41,853,169
	<u>14,279,107</u>	<u>48,401,038</u>

Placements relate to call deposits with CRDB bank Plc were NIL (2022: TZS 20.0 billion, TZS 5.0 billion and TZS 15 billion at an interest of 6.0%, 5.5% and 5.0% per annum respectively).

For the purpose of the statement of cash flows, cash and cash equivalents comprise the above balances.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

17. SHARE CAPITAL

Authorised, issued and fully 117,500,000 ordinary shares at TZS 10,000 per share	<u>117,500,000</u>	<u>32,500,000</u>
Share premium on issued and fully paid 3,250,000 ordinary shares at TZS 1,126.95 per share	<u>3,662,575</u>	<u>3,662,575</u>

18. RETAINED EARNINGS

	<u>Accumulated profit TZS'000</u>	<u>Dividend paid TZS'000</u>	<u>Retained earnings TZS'000</u>
At 1 September 2022	82,319,506	(19,654,590)	62,664,916
Profit for the year	<u>18,554,894</u>	<u>-</u>	<u>18,554,894</u>
At 31 August 2023	<u>100,874,400</u>	<u>(19,654,590)</u>	<u>81,219,810</u>
At 1 September 2021	68,364,092	(19,654,590)	48,709,502
Profit for the year	<u>13,955,414</u>	<u>-</u>	<u>13,955,414</u>
At 31 August 2022	<u>82,319,506</u>	<u>(19,654,590)</u>	<u>62,664,916</u>

19. TRADE AND OTHER PAYABLES

	2023 TZS'000	2022 TZS'000
Trade creditors	448,134	349,498
Accrued tax liabilities	855,057	351,882
Other accrued expenses	82,315	255,847
Provisions and other liabilities	<u>486,691</u>	<u>523,511</u>
	<u>1,872,197</u>	<u>1,480,738</u>

Accruals and other creditors comprise amounts outstanding for credit purchases and on-going costs. The carrying amounts of trade and other payables approximate their fair values due to the short-term nature of the liabilities.

The Company has financial risk management policies to ensure that all payables are paid within the pre-agreed credit terms.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

19 TRADE AND OTHER PAYABLES

The provisions and other liabilities comprise the following:

	Provision open taxes TZS'000	Provisions Bonus TZS'000	Provisions Leave pay TZS'000	Accrual for service levy TZS'000	Total TZS'000
At 1 September 2022	358,865	2,913	41,228	120,505	523,511
Charge to P&L	-	34,322	7,742	61,711	103,775
Payment	-	(34,322)	(8,432)	(97,841)	(140,595)
At 31 August 2023	358,865	2,913	40,538	91,521	486,691
At 1 September 2021	358,865	17,143	25,309	121,519	522,836
Expense for the period	-	20,888	15,919	97,174	133,981
Payment	-	(35,118)	-	(98,188)	(133,306)
At 31 August 2022	358,865	2,913	41,228	120,505	523,511

The provisions for open tax cases outlined above include objections to assessments issued by Tanzania Revenue Authority relating withholding tax (WHT) of TZS 358 million for the years of income 2015 to 2018 which are under objection and appeal respectively.

20. CONTRACT LIABILITIES

	2023 TZS'000	2022 TZS'000
Opening balance	424,817	-
Increase during the year	30,879,259	32,816,047
Amount recognised as revenue during the year	(30,609,845)	(32,391,230)
Closing balance	694,231	424,817

The performance obligations relating to the contract liabilities are expected to be fulfilled in the subsequent financial year.

21. RELATED PARTY DISCLOSURES

The Company's related parties include the following:

Entity	Relationship
Kilombero Sugar Company Limited	Sister company – common control
AB Mauri Italy SPA	Sister company – common control
Illovo Sugar Africa (Pty) Limited	Sister company – common control

The Company, in the normal course of business, enters into various transactions with related parties. The Company transacts with the holding company and other entities related to it by virtue of common shareholding. The following transactions were carried out with the related parties:

ILLOVO DISTILLERS (TANZANIA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 AUGUST 2023**

21. RELATED PARTY DISCLOSURES (Continued)

(i) Purchase / (sale) of goods and services	2023	2022
	TZS'000	TZS'000
Kilombero Sugar Company Limited	(288,299)	(427,924)
Kilombero Sugar Company Limited	2,311,202	2,957,546
Illovo Sugar Africa (Pty) Limited – Procurement	<u>1,577,476</u>	<u>1,228,450</u>
(ii) Management fees		
Kilombero Sugar Company Limited	<u>68,487</u>	<u>77,046</u>
(iii) Due to related parties		
Kilombero Sugar Company Limited	1,756,776	1,161,487
Illovo Sugar Africa (Pty) Limited – Procurement	131,784	138,890
Illovo Sugar Africa (Pty) Limited – Marketing Services	<u>342,293</u>	<u>245,110</u>
	<u>2,230,853</u>	<u>1,545,487</u>
(iv) Marketing fees paid		
Illovo Sugar Africa (Pty) Limited	<u>765,511</u>	<u>841,398</u>
(v) Loan to Kilombero Sugar Company Limited		
Opening balance	10,015,534	-
Disbursement during the year	135,000,000	10,000,000
Interest accrued thereon	8,058,552	15,534
Payments received during the year	-	-
Closing balance	<u>153,074,086</u>	<u>10,015,534</u>
<p>Illovo Distiller Tanzania Limited has entered into an agreement to lend funds up to the maximum of TZS 145 billion to Kilombero Sugar Company Limited. The funds will be advanced time to time, to enable Kilombero Sugar Co Ltd discharge in whole or part, any liabilities and obligations in respect to the expansion project.</p> <p>The loan is unsecured and attracts interest at 4.5% per annum plus 182 days treasury bill rates.</p>		
(vi) Compensation for key management personnel		
Short term employee benefits	413,022	374,667
Pension –employer contributions	41,320	37,467
Other benefits	<u>47,707</u>	<u>16,182</u>
	<u>502,049</u>	<u>428,316</u>

Key management personnel are those with responsibility for planning, directing and controlling the activities of the Company, specifically the Executive directors of the Company including the Directors of Department and the extended management team.

There have been no guarantees provided for any related party payables.

ILLOVO DISTILLERS (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 AUGUST 2023

22. COMMITMENTS

The Company had capital commitments as at year-end amounting to TZS 703.85 million (2022: TZS 23 million). The commitment is part of the work in progress for core capital projects.

23. CONTINGENT LIABILITIES

The normal procedure for agreeing final tax liabilities in Tanzania involves the Company filing its final tax self-assessment return with the Tanzania Revenue Authority (TRA) followed by TRA performing its review and/or audit of the Company's submissions and issuing notice of final income tax assessment to the Company. The TRA final income tax assessment as may be determined after the TRA review and/or audit may differ from the Company's self-assessment. The Tanzania tax laws stipulate the tax assessment objection and appeal procedures that the Company may follow in case of disagreement with the TRA assessments. It is possible that the timeframe between the Company's self-assessment and TRA issuing its notice of final tax assessment may be several months or years.

The Company duly submitted the final income tax self-assessment returns for all the prior years to 2022. TRA has done tax audits up to the 2021. The Company objected to a number of open tax assessments including assessments amounting to TZS 2.5 billion (2022: TZS 2.4 billion) for which the directors have assessed that it is possible, but not probable, that the Company may be required to pay the amounts. The directors have assessed, based on advice by the Company's tax consultants and lawyers, the status of the other open tax assessments and do not anticipate liabilities that may have a material impact on the Company's financial statements.

Litigation

The Company is inherently liable to litigation that arises in the normal course of business. The total amount of claims from litigations against the Company was TZS 0 million as at year-end (2022: TZS 35). The directors have assessed, based on advice by the Company's legal counsel that no liabilities that may have a material impact on the financial statements will arise from the open litigations.

24. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The immediate parent company is Illovo Group Holding Limited, a private limited liability company incorporated under the laws of the Republic of South Africa. The Company's ultimate parent entity is Associated British Foods Plc (ABF), a company incorporated in the United Kingdom.

25. EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting period which require adjustment to or disclosure in the financial statements.