Chambok Company Ltd.

Financial Statements

31 December 2018

Version 2, October 21, 2018

Statement of comprehensive income and retained earnings

for the year ended 31 December 2018

	Notes	2018	2017
		៛'000	**៛'000**
Revenue	4	6,863,545	5,808,653
Cost of sales		(5,178,530)	(4,422,575)
Gross profit		**1,685,015**	**1,386,078**
Other income	5	88,850	25,000
Distribution costs		(175,550)	(156,800)
Administrative expenses		(810,230)	(660,389)
Other expenses		(106,763)	(100,030)
Operating profit		**681,322**	**493,859**
Finance costs	6	(26,366)	(36,712)
Profit before tax	**7**	**654,956**	**457,147**
Income tax expense	8	(270,250)	(189,559)
Profit for the year		**384,706**	**267,588**
Retained earnings at start of year		2,171,353	2,003,765
Dividends		(150,000)	(100,000)
Retained earnings at end of year	3	**2,406,059**	**2,171,353**

Statement of financial position

at 31 December 2018

	Notes	2018	2017
ASSETS		**៛'000**	**៛'000**
Current assets			
Cash		52,600	14,068
Trade and other receivables	9	585,548	573,862
Inventories	10	57,381	47,920
		695,529	**635,850**
Non-current assets			
Property, plant and equipment	11	2,549,945	2,401,455
Intangible assets	12	850	2,550
Deferred tax asset	13	4,309	2,912
		2,555,104	**2,406,917**
Total assets		**3,250,633**	**3,042,767**
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables	14	411,480	395,520
Lease payable	15	20,000	25,000
Interest payable	6	2,000	1,200
Current tax payable		271,647	190,316
Warranty Provision	16	4,200	5,040
Employee benefits payable		10,623	9,830
Current portion of bank loan	17	21,461	19,884
		741,411	**646,790**
Non-current liabilities			
Bank loan	17	73,163	194,624
		73,163	**194,624**
Total liabilities		**898,174**	**956,921**
Equity			
Share capital	18	30,000	30,000
Retained earnings	3	2,406,059	2,171,353
		2,436,059	**2,201,353**
Total liabilities and equity		**3,250,633**	**3,042,767**

Statement of cash flows

for the year ended 31 December 2017

	Notes	2018	2017
		៛’000	**៛’000**
Cash flows from operating activities			
Operating profit for the year		681,322	493,859
Adjustments for:			
Depreciation of property, plant and equipment	11	300,360	219,547
Amortisation of intangibles	12	1,700	1,700
Gain on disposal of equipment		(63,850)	-
Changes in operating assets and liabilities:			
Increase in trade and other receivables		(11,686)	(52,628)
Increase in inventories		(9,461)	(2,870)
Increase in trade payables		10,120	10,870
Increase in employee benefit payable		793	193
Cash generated from operations		**909,298**	**670,671**
Tax paid		(190,316)	(173,211)
Interest paid		(25,566)	(35,512)
Net cash inflow from operating activities		**693,416**	**461,948**
Cash flows from investing activities			
Proceeds from sale of equipment		100,000	-
Purchases of equipment	11	(485,000)	(435,000)
Net cash used in investing activities		**(385,000)**	**(435,000)**
Cash flows from financing activities			
Payment of bank loan		(119,884)	(18,423)
Dividends paid		(150,000)	(100,000)
Net cash used in financing activities		**(269,884)**	**(118,423)**
Net increase (decrease) in cash		**38,532**	**(91,475)**
Cash and cash equivalents at beginning of year		14,068	105,543
Cash at end of year		**52,600**	**14,068**

Notes to the financial statements

to the financial statements for the year ended 31 December 2018

1. General information

Chambok Company Limited (the “company”) was registered on 20 November 2015 as a Private Limited Company in the Kingdom of Cambodia. The address of its registered office and principal place of business is 64 Street 108, Sangkat Wat Phnom, Phnom Penh, Cambodia. The principal activities are the manufacture and sale of candles.

2. Basis of preparation and significant accounting policies

These financial statements have been prepared in accordance with the Cambodian International Financial Reporting Standard for Small and Medium-sized Entities (“CIFRS for SMEs”) issued by the National Accounting Council of the Ministry of Economy and Finance and the International Financial Reporting Standard for Small and Medium Sized Entities (“IFRS for SMEs”) issued by the International Accounting Standards Board. They are presented in Khmer riel, the functional currency of the Company.

Revenue recognition
Revenue from sales of goods is recognised when the goods are delivered and title has passed. Referral commissions are recognised in accordance with the relevant referral agreements. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and VAT collected on behalf of the government of Cambodia.

Borrowing costs
All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Income tax
Income tax expense represents the sum of the tax currently payable and the change in any deferred tax asset or liability. The tax currently payable is based on taxable profit for the year.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences).

The carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Any adjustments are recognised in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

The deferred tax assets are the tax effects of expected future income tax benefits relating to fixtures and equipment (within property, plant and equipment) for which the tax allowable depreciation in the tax law is less than the accounting depreciation.

Management considers it probable that taxable profits will be available against which the future income tax deductions can be utilised.

Property, plant and equipment
Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following annual rates are used for the depreciation of property, plant and equipment:

Buildings	2 per cent
Fixtures and equipment	10–30 per cent

Intangible assets
Intangible assets are purchased computer software that is stated at cost less accumulated depreciation and any accumulated impairment losses. It is amortised over its estimated life of five years using the straight-line method. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

Impairment of assets
At each reporting date, property, plant and equipment, intangible assets, and investments in associates are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognised immediately in profit or loss. A reversal of an impairment loss is recognised immediately in profit or loss.

Leases

Leases are classified as operating leases whenever the terms of the lease do not transfer substantially all the risks and rewards of ownership of the leased asset to the Company. All other leases are classified as finance leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are stated at the lower of cost and selling price less costs to complete and sell. Cost is calculated using the first-in, first-out (FIFO) method.

Trade and other receivables

Sales are made on the basis of normal credit terms, and the receivables do not bear interest. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

Trade payables

Trade payables are obligations on the basis of normal credit terms and do not bear interest. Trade payables denominated in a foreign currency are translated into Khmer riel using the exchange rate at the reporting date. Foreign exchange gains or losses are included in other income or other expenses.

Bank loan

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Provision for warranty obligations

All goods sold by the Company are warranted to be free of manufacturing defects for a period of one year. Goods are repaired or replaced at the Company's option. When revenue is recognised, a provision is made for the estimated cost of the warranty obligation.

3. Restriction on payment of dividend

Under the terms of the bank loan agreement, dividends cannot be paid to the extent that they would reduce the balance of retained earnings below the sum of the outstanding balance of the bank loan.

4. Revenue

	2018	2017
	₮'000	₮'000
Sale of goods	6,743,545	5,688,653
Referral commissions	120,000	120,000
	6,863,545	5,808,653

5. Other income

Other income includes warehouse rent received ₮25,000,000 in both 2017 and 2018 and a gain on disposal of property, plant and equipment of ₮63,850,000 in 2018.

6. Finance costs

	2018	2017
	₮'000	₮'000
Interest on bank loan	(26,366)	(36,712)

7. Profit before tax

The following items have been recognised as expenses (income) in determining profit before tax:

	2018	2017
	₮'000	₮'000
Cost of inventories recognised as expense	5,178,530	4,422,575
Research and development cost (included in other expenses)	31,620	22,778
Foreign exchange loss on trade payables (included in other expenses)	1,000	-
Warranty expense (included in cost of sales)	5,260	7,340

8. Income tax expense

	2018	2017
	₮'000	₮'000
Current tax	271,647	190,316
Change in deferred tax asset (note 13)	(1,397)	(757)
Income tax expense	270,250	189,559

Income tax is calculated at 20 per cent (2017: 20 per cent) of the estimated assessable profit for the year. Income tax expense of ₮270,250,000 in 2018 (₮189,559,000 in 2017) differs from the amount that would result from applying the tax rate of 20 per cent (both 2018 and 2017) to profit before tax because, under the tax laws of Cambodia, some employee compensation expenses (៛20,670,000 in 2018 and ៛16,750,000 in 2017) that are recognised in measuring profit before tax are not tax-deductible.

9. Trade and other receivables

	2018	2017
	៛'000	៛'000
Trade debtors	528,788	528,384
Prepayments	56,760	45,478
	585,548	573,862

10. Inventories

	2018	2017
	៛'000	៛'000
Raw materials	42,601	36,450
Work in progress	1,140	900
Finished goods	13,640	10,570
	57,381	47,920

11. Property, plant and equipment

	Land and buildings	Fixtures and equipment	Total
	៛'000	៛'000	៛'000
Cost			
1 January 2018	1,960,000	1,102,045	3,062,045
Additions	-	485,000	485,000
Disposals	-	(241,000)	(241,000)
31 December 2018	1,960,000	1,346,045	3,306,045
Accumulated depreciation and impairment			
1 January 2018	390,000	270,590	660,590
Annual depreciation	30,000	270,360	300,360
Disposals	-	(204,850)	(204,850)
31 December 2018	420,000	336,100	756,100
Carrying amount			
31 December 2018	1,540,000	1,009,945	2,549,945

12. Intangible assets

Software:	
Cost	**៛'000**
1 January 2018	8,500
Additions	-
Disposals	-
31 December 2018	**8,500**
Accumulated depreciation and impairment	
1 January 2018	5,950
Annual amortisation (included in administrative expenses)	1,700
31 December 2018	**7,650**
Carrying amount	
31 December 2018	**850**

13. Deferred tax

The following are the deferred tax liabilities (assets) recognised by the Company:

	Software	**Fixtures and Equipment**	**Total**
	៛'000	**៛'000**	**៛'000**
1 January 2017	1,700	(3,855)	(2,155)
Charge (credit) to profit or loss for the year	(680)	(77)	(757)
1 January 2018	1,020	(3,932)	(2,912)
Charge (credit) to profit or loss for the year	(680)	(717)	(1,397)
31 December 2018	340	(4,649)	(4,309)

The deferred tax assets for the fixtures and equipment and the deferred tax liability for software relate to income tax in Cambodia, and the law allows net settlement. Consequently, they have been offset in the statement of financial position as follows:

	2018	**2017**
	៛'000	**៛'000**
Deferred tax liability	340	1,020
Deferred tax asset	(4,649)	(3,932)
	(4,309)	(2,912)

14. Trade payables

Trade payables at 31 December 2018 include ₮42,600,000 denominated in foreign currencies (nil at 31 December 2017).

15. Commitments under operating leases

The Company rents several sales offices under operating leases. The leases are for an average period of three years, with fixed rentals over the same period.

	2018	2017
	₮'000	₮'000
Minimum lease payments under operating leases recognised as an expense during the year	26,100	26,100

At year-end, the Company has outstanding commitments under non-cancellable operating leases that fall due as follows:

	2018	2017
	₮'000	₮'000
Within one year	13,050	26,100
Later than one year but within five years	-	13,050
Later than five years	-	-
	13,050	39,150

16. Provision for warranty obligations

Changes in the provision for warranty obligations during 2018 were:

	2018
	₮'000
1 January 2018	5,040
Additional accrual during the year	5,260
Cost of warranty repairs and replacement during the year	(6,100)
31 December 2018	4,200

The obligation is classified as a current liability because the warranty is limited to twelve months.

17. Bank loan

	2018	2017
	៛'000	៛'000
Bank loan—fully repayable in 2020, prepayable without penalty		
Current portion of bank loan	21,461	19,884
Non-current portion of bank loan	73,163	194,624
	94,624	214,508

The loan is secured by a floating lien over land and buildings owned by the Company with a carrying amount of ៛266,000,000 at 31 December 2018 (៛412,000,000 at 31 December 2017).

Interest is payable on the bank overdraft at 200 points above the London Interbank Borrowing Rate (LIBOR). Interest is payable on the seven-year bank loan at a fixed rate of 5 per cent of the principal amount.

18. Share capital

Balances as at 31 December 2018 and 2017 of ៛30,000,000 comprise 30,000 ordinary shares with par value ៛1,000 fully paid, issued and outstanding. An additional 70,000 shares are legally authorised but unissued.

19. Contingent liabilities

During 2018 a customer initiated proceedings against the Company for a fire caused by a faulty candle. The customer asserts that its total losses are ៛50,000,000 and has initiated litigation claiming this amount.

The Company's legal counsel do not consider that the claim has merit and the Company intends to contest it. No provision has been recognised in these financial statements as the Company's management does not consider it probable that a loss will arise.

20. Events after the end of the reporting period

On 25 January 2019 there was a flood in one of the candle storage rooms. The cost of refurbishment is expected to be ៛36,000,000. The reimbursements from insurance are estimated to be ៛16,000,000.

On 14 February 2019 the directors voted to declare a dividend of ៛1,000 per share (៛30,000,000 total) payable on 15 April 2019 to registered shareholders on 31 March 2019. Because the obligation arose in 2019, a liability is not shown in the statement of financial position at 31 December 2018.

21. Related party transactions

The Company sold goods to Hanover Co. Ltd., which is a company under control of the majority shareholder of Chambok Co. Ltd., as follows:

	Sales of goods		**Amounts owed to the Company by the related party and included in receivables at year-end**	
	2018	**2017**	**2018**	**2017**
	៛'000	**៛'000**	**៛'000**	**៛'000**
Hanover Co. Ltd.	10,000	8,000	800	400

The total remuneration of directors and other members of key management in 2018 (including salaries and benefits) was ៛249,918,000 (2017: ៛208,260,000).

22. Approval of financial statements

These financial statements were approved by the board of directors and authorised for issue on 10 March 2019.