

**PEE PEE (TANZANIA) LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**PEE PEE (TANZANIA) LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**PEE PEE (TANZANIA) LIMITED**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**INTRODUCTION**

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2017.

**INCORPORATION AND REGISTERED OFFICE**

The Company was incorporated in January 1994 in Tanzania under the Companies Ordinance (Cap. 212), repealed and replaced by the Companies Act, 2002 and issued with the certificate of incorporation number 24636. Its registered office is located at Plot No. 2, Kange Industrial area, P.O. Box 34, Tanga.

**COMPANY'S MISSION**

The Company is committed to excellence in quality and customer service. Pee Pee (Tanzania) Limited (PPTL) strive to be the market leader through continual development and investment in response to market needs today and in the future.

**PRINCIPAL ACTIVITIES**

The Company's principal activity is the manufacture and sale of woven packaging. The extensive product range consists of Purdue Improved Crop Storage (PICS) Hermetic Storage Bags, IMARA Tarpaulins, Leno net bags and basic woven sacks for the agricultural sector and cement, sugar, fertiliser and lime packing bags for the industrial sector.

**BUSINESS DEVELOPMENT**

The Company will continue to improve its profitability through the introduction of innovative products, focusing on value-added customer services while carefully managing both costs and risks. The Company will continue to focus on improving productivity and introducing new products to the market.

**MANAGEMENT**

The management of the day-to-day operations is under the Managing Director and is organized on the following departments: finance and administration, sales and marketing, finishing, cement sack division, stores, extrusion, weaving and tarpaulin sheet division.

**RESULTS AND DIVIDENDS**

The Directors do not recommend the payment of a dividend for the year. The performance of the Company for the year is set out on page 9 of these financial statements.

**PERFORMANCE FOR THE YEAR**

During the year ended 31 December 2017 the Company's sales revenue increased to TZS 31.9 billion (2016: TZS 25.7 billion). During the period the Company posted an operating profit of TZS 2 billion (2016: 1.6 billion), whereas the net profit after tax was TZS 147.6 million (2016: TZS 109.3 million).

**SOLVENCY**

The Company's state of affairs at 31 December 2017 is set out on page 10 of these financial statements.

The board of Directors has reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

**PEE PEE (TANZANIA) LIMITED**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**ADMINISTRATIVE MATTERS**

The Company is capable of handling its administrative matters.

**EMPLOYEE WELFARE**

- a) Industrial safety: The Company satisfies the standards of industrial safety established by the chief inspector of factories.
- b) Industrial relations: The working relationship between employees and management is good. The Company is compliant with all aspects of labour legislation in the country. The workforce enjoys freedom of association to negotiate remuneration, productivity bonuses, general conditions of employment, and health and safety issues through a collective bargaining agreement registered with the ministry of labour. The Company operates three 8-hour shifts and pays wages at the stipulated rates in the voluntary agreement.
- c) Training facilities: There is a training program catering for all grades of staff.
- d) Medical facilities: The Company has a dispensary and a full time qualified medical assistant on the payroll and provides medical referral facilities for its employees when necessary.
- e) Canteen facilities: The Company provides daily meals to all employees.
- f) Disabled persons: Necessary assistance will be given and an appropriate career plan developed for those employees who become disabled while in the company's employment so as to ensure that opportunities for advancement are provided.

**DIRECTORS'**

The Board of Directors of the company at the date of this report, all of whom have served throughout the year, are:

<b>Name</b>	<b>Nationality</b>	<b>Position</b>
Mr. Kishore Devani	Kenyan	Director
Mr. Jonathan Lane	British	Director
Mr. Suraj Devani	Kenyan	Director
Mr. Ashvin Mavani	Kenyan	Chairman
Mr. Taranjit Singh Saini	Indian	Managing Director

**DIRECTORS INTEREST IN THE SHARES OF THE COMPANY**

None of the directors have any direct interest in the issued and fully paid up shares of the Company except for one share held by Mr. Jonathan Lane, one share held by Mr. Ashvin Mavani, one share held by Mr. Suraj Devani and one share held by Mr Taranjit Singh Saini.

**RISK MANAGEMENT AND INTERNAL CONTROL**

The Board accepts final responsibility for the risk management and internal control systems of the Company. It is the task of the management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions and responsible behaviours towards all stakeholder

**PEE PEE (TANZANIA) LIMITED**

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)**

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system, of internal control can provide absolute assurance against misstatement or losses, the Company system is designed to provide the Board with reasonable assurance that the procedures are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31 December 2017 and is of the opinion that they met accepted criteria.

The Board is directly responsible for risk and internal control assessment as a separate audit committee is not considered necessary given the stage/nature of Company's operation.

**CORPORATE GOVERNANCE**

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

The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Managing Director assisted by senior management. Senior Management is invited to attend board meetings and facilitates the effective control of all the Company's operational activities, acting as a medium of communication and coordination between all the various business units.

The Company is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability.

**RELATED PARTY**

Details of related party transactions and balances are given in note 19 of the notes to the financial statements.


**POLITICAL AND CHARITABLE DONATIONS**

The Company did not make any political donations during the year. Donation made to charitable organizations during the year amounted to TZS 1.2 million (2016: TZS 5.8 million)

**AUDITORS**

KPMG have expressed their willingness to continue in office and are eligible for reappointment. A resolution proposing the reappointment of KPMG as auditors to the company will be put to the Annual General Meeting.

**BY ORDER OF THE BOARD**

  
.....  
Suraj Devani  
Director

22<sup>nd</sup> June 2018  
.....

**PEE PEE (TANZANIA) LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Company's directors are responsible for the preparation of financial statements that give a true and fair view of Pee Pee (Tanzania) Limited comprising the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002.

The directors are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Company to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework.

**Approval of annual financial statements**

The annual financial statements of Pee Pee (Tanzania) Limited, as identified in the first paragraph, were approved by the Board of directors on.....22<sup>ND</sup> JUNE 2018 and signed on its behalf by



\_\_\_\_\_  
Suraj Devani  
Director

**PEE PEE (TANZANIA) LIMITED**

**DECLARATION OF THE PROFESSIONAL ACCOUNTANT**

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

It is the duty of a Professional Accountant to assist the Board of Directors/Governing Body/Management to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors/Governing Body as under Directors Responsibility statement on an earlier page.

I DICKSON RUMJIMBA a professional accountant registered by NBAA hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2017, have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements of Pee Pee Tanzania Limited comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Signed by: Dickson Rumjimba

Position: PROFESSIONAL ACCOUNTANT

NBAA Membership No.: 3464

Date: 22/06 2018



**KPMG**  
**Certified Public Accountants**  
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## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PEE PEE (TANZANIA) LIMITED**

Report on the audit of the financial statements

### *Opinion*

We have audited the financial statements of Pee Pee (Tanzania) Limited ("the Company"), set out on pages 9 to 36 which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Pee Pee (Tanzania) Limited as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2002.

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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 Directors' Report as required by the Companies Act, 2002, Statements of Directors' responsibilities and Declaration of the Professional Accountant. The other information does not include the financial statements and our auditors' report thereon.

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

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

### *Responsibilities of Directors for the Financial Statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002, and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. Directors are responsible for overseeing the Company's financial reporting process.



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
PEE PEE (TANZANIA) LIMITED (CONTINUED)**

*Auditors' Responsibilities for the Audit of the financial Statements*

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
PEE PEE (TANZANIA) LIMITED (CONTINUED)**

**Report on Other Legal and Regulatory Requirements**

As required by the Companies Act, 2002 we report that:

- in our opinion, proper accounting records have been kept by Pee Pee (Tanzania) Limited;
- the individual accounts are in agreement with the accounting records of the company; and
- we obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

**KPMG**  
**Certified Public Accountants (T)**

Signed by: CPA Vincent Onjala (TACPA 2722)  
Dar es Salaam

Date: 22 June 2018

**PEE PEE (TANZANIA) LIMITED**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017**


	Notes	2017 TZS '000	2016 TZS '000
Revenue	6	31,894,080	25,667,274
Cost of sales	7	<u>(27,488,340)</u>	<u>(21,070,448)</u>
<b>Gross profit</b>		<b>4,405,740</b>	<b>4,596,826</b>
Other income	8	609,345	914,101
Profit/ (Loss) on disposal of assets		15,384	(484,657)
Administrative expenses		(2,036,624)	(2,233,668)
Selling and distribution expenses		<u>(948,617)</u>	<u>(1,210,227)</u>
<b>Results from operating activities</b>		<b>2,045,228</b>	<b>1,582,375</b>
Finance costs		(1,162,550)	(1,289,434)
Foreign exchange loss		<u>(521,726)</u>	<u>(82,926)</u>
<b>Profit before taxation</b>	9	<b>360,952</b>	<b>210,015</b>
Tax charge	10	<u>(213,364)</u>	<u>(100,723)</u>
<b>Profit for the year</b>		<b>147,588</b>	<b>109,292</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Available-for-sale financial assets – net change in fair value	12	(18,887)	(48,580)
Translation of foreign operations	16	<u>-</u>	<u>(3,837)</u>
		<b>(18,887)</b>	<b>(52,417)</b>
<i>Items that will not be reclassified to profit or loss</i>			
Fixed asset revaluation gain	11	-	8,788,944
Related tax	10	<u>-</u>	<u>(2,636,683)</u>
		<b>-</b>	<b>6,152,261</b>
<b>Other comprehensive (loss) /income, net of tax</b>		<u><b>(18,887)</b></u>	<u><b>6,099,844</b></u>
<b>Total comprehensive income for the year</b>		<u><b>128,701</b></u>	<u><b>6,209,136</b></u>

The notes on pages 13 to 36 form part of these financial statements.

Report of the Auditor – page 6 to 8.

**PEE PEE (TANZANIA) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**

ASSETS	Notes	2017 TZS '000	2016 TZS '000
Property, plant and equipment	11	20,422,417	21,594,076
Investment in shares	12	55,336	74,223
		<u>20,477,753</u>	<u>21,668,299</u>
<b>Non-current assets</b>			
Inventories	13	11,018,227	9,790,312
Trade and other receivables	14	6,925,484	4,563,901
Income tax recoverable		91,102	186,731
Cash and cash equivalents		19,642	61,594
<b>Current assets</b>		<u>18,054,455</u>	<u>14,602,538</u>
<b>Total assets</b>		<u><u>38,532,208</u></u>	<u><u>36,270,837</u></u>
<b>EQUITY</b>			
Share capital	15	4,723,640	4,723,640
Non-distributable capital reserve	16	88,638	88,638
Revaluation reserve	16	6,559,181	6,706,291
Available for sale reserve	16	41,611	60,498
Translation reserve	16	-	(60,099)
Retained loss		(413,963)	(648,562)
<b>Total equity</b>		<u><u>10,999,107</u></u>	<u><u>10,870,406</u></u>
<b>LIABILITIES</b>			
Bank and other borrowings	17	3,615,669	5,088,025
Deferred tax liability	10	3,069,593	2,951,911
<b>Non-current liabilities</b>		<u>6,685,262</u>	<u>8,039,936</u>
Trade and other payables	18	9,630,957	7,228,150
Bank overdraft	17	6,415,406	5,033,154
Current portion of bank and other borrowings	17	4,801,476	5,099,191
<b>Current liabilities</b>		<u>20,847,839</u>	<u>17,360,495</u>
<b>Total liabilities</b>		<u><u>27,533,101</u></u>	<u><u>25,400,431</u></u>
<b>Total equity and liabilities</b>		<u><u>38,532,208</u></u>	<u><u>36,270,837</u></u>

  
 Suraj Devani  
 Director

22<sup>nd</sup> June 2018

The notes on pages 13 to 36 form part of these financial statements.  
 Report of the Auditor – page 6 to 8

**PEE PEE (TANZANIA) LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital TZS '000	Non distributable reserve TZS '000	Revaluation reserve TZS '000	Available for sale reserve TZS '000	Retained earnings TZS '000	Translatio n reserve TZS '000	Total TZS '000
<b>Balance as at 1 January 2016</b>	4,723,639	88,638	569,420	109,078	(773,244)	(56,262)	4,661,269
Profit for the year	-	-	-	-	109,292	-	109,292
Transfer of surplus depreciation on revaluation	-	-	(15,390)	-	15,390	-	-
Revaluation reserve	-	-	6,152,261	-	-	-	6,152,261
Other comprehensive income	-	-	-	(48,580)	-	-	(48,580)
Translation of foreign operations	-	-	-	-	-	(3,837)	(3,837)
<b>Total comprehensive income for the year</b>	<u>4,723,639</u>	<u>88,638</u>	<u>6,706,291</u>	<u>60,498</u>	<u>(648,562)</u>	<u>(60,099)</u>	<u>10,870,405</u>
<b>Transactions with owners of the Company</b>							
Additional share capital	1	-	-	-	-	-	1
<b>Balance as at 31 December 2016</b>	<u>4,723,640</u>	<u>88,638</u>	<u>6,706,291</u>	<u>60,498</u>	<u>(648,562)</u>	<u>(60,099)</u>	<u>10,870,406</u>
<b>Balance as at 1 January 2017</b>	4,723,640	88,638	6,706,291	60,498	(648,562)	(60,099)	10,870,406
Profit for the year	-	-	-	-	147,588	-	147,588
Transfer of surplus depreciation on revaluation	-	-	(147,110)	-	147,110	-	-
Other comprehensive income	-	-	-	(18,887)	-	-	(18,887)
Translation of foreign operations	-	-	-	-	(60,099)	60,099	-
<b>Balance as at 31 December 2017</b>	<u>4,723,640</u>	<u>88,638</u>	<u>6,559,181</u>	<u>41,611</u>	<u>(413,963)</u>	<u>-</u>	<u>10,999,107</u>

The notes on pages 13 to 36 form part of these financial statements.

Report of the Auditors – page 6 to 8

**PEE PEE (TANZANIA) LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 TZS'000	2016 TZS '000
<b>Cash Flows from operating activities</b>			
Profit for the year before tax		360,952	210,015
<b>Adjustments for:</b>			
- Depreciation	11	1,304,015	1,057,200
- (Gain)/ Loss on disposal of property, plant and equipment		(15,384)	484,657
- Dividends income on TCC & TPCC shares		(1,111)	(2,450)
- Translation gain		-	(3,837)
		<u>1,648,472</u>	<u>1,745,585</u>
<b>Change in:</b>			
- Inventories		(1,227,915)	2,110,136
- Trade and other receivables		(2,361,583)	(290,589)
- Trade and other payables		<u>2,402,807</u>	<u>(1,801,043)</u>
<b>Cash generated from/(used in) operating activities</b>		<b>461,781</b>	<b>1,764,089</b>
Tax paid	10	(53)	(123)
<b>Net cash generated from/(used in) operating activities</b>		<u><b>461,728</b></u>	<u><b>1,763,966</b></u>
<b>Investing activities</b>			
Acquisitions of property, plant and equipment	11	(136,040)	(2,412,060)
Proceeds from sale of assets		19,068	7,340
Dividends received on TCC & TPCC shares		1,111	2,450
<b>Net cash used in investing activities</b>		<u><b>(115,861)</b></u>	<u><b>(2,402,270)</b></u>
<b>Financing activities</b>			
Loan received	17	15,344,050	4,546,132
Repayment of borrowings	17	(17,114,121)	(5,143,176)
<b>Net cash used in financing activities</b>		<u><b>(1,770,071)</b></u>	<u><b>(597,044)</b></u>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,424,204)</b>	<b>(1,235,348)</b>
<b>Cash and cash equivalents at January</b>		<b>(4,971,560)</b>	<b>(3,736,212)</b>
<b>Cash and cash equivalents at 31 December</b>		<u><b>(6,395,764)</b></u>	<u><b>(4,971,560)</b></u>
<b>Composition of cash and cash equivalents is as follows:</b>			
Bank and cash balances		19,642	61,594
Bank overdraft		<u>(6,415,406)</u>	<u>(5,033,154)</u>
		<u><b>(6,395,764)</b></u>	<u><b>(4,971,560)</b></u>

The notes on pages 13 to 36 form part of these financial statements.  
Report of the Auditor – page 6 to 8

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**1. REPORTING ENTITY**

Pee Pee (Tanzania) Limited (the “Company”) is a company domiciled in Tanzania. The financial statements of the Company are for the year ended 31 December 2017.

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

**(b) Basis of measurements**

The financial statements are prepared on the historical cost basis except for the financial instruments at fair value through profit or loss which are measured at fair value.

**(c) Functional and presentation currency**

These financial statements are presented in Tanzanian Shillings (TZS), which is the Company’s functional currency.

**(d) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant estimates are made for:

- Taxation

Significant assumptions are required in determining the Company’s overall income tax provision. There are many transactions and calculations, for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. When the final outcome of tax matters is different from the amounts that were initially recorded, such differences will have an impact on the current and any deferred income tax provisions in the period in which the determination is made.

- Property, Plant and equipment

The useful lives of items of property, plant and equipment are estimated annually and are in line with the rate at which they are depreciated.

- Inventories

The Company performs inventory obsolescence at each reporting date. In determining whether inventories are obsolete, the Company assesses the age at which inventories held in the store in order to make an assessment of the inventory write down to net realisable value.

- Impairment of financial assets: Refer to note 3(g)(i)

- Impairment of non-financial assets: Refer to note 3(g)(ii)

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements, which are consistent with those applied in prior year, are set out below:-

**(a) Revenue recognition**

Revenue represents the sales value of goods sold net of VAT, discounts and rebates, and is recognised on delivery of goods to customers (including delivery to consignment stores) or on collection of goods by customers.

**(b) Income tax**

Income tax expense for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the date of the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the date of the end of reporting period. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(c) Translation of foreign currencies**

The Company's accounting records are maintained in Tanzanian Shillings (TZS), and consequently these financial statements are presented in TZS. Transactions in United States Dollar (US\$) and other currencies are translated into TZS at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in US\$ and other currencies at the date of the end of the reporting period are retranslated into TZS at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the date of the end of the reporting period. Non-monetary assets and liabilities denominated in United States Dollar and other currencies are recorded at the exchange rate ruling at the date of the transaction. The resulting exchange differences from conversion and translation are dealt with in profit and loss in the year in which they arise.

**(d) Financial Instruments (including receivables)**

**i) Non-derivative financial instruments**

Non-derivative financial instruments comprise investments, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are initially recognised at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(d) Financial Instruments (including receivables) (Continued)**

*Financial assets at fair value through profit or loss*

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the company manages such investments and make purchase and sale decisions based on their fair value in accordance with the company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

*Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

**ii) Derivative financial instruments**

The Company does not have derivative financial instruments.

**iii) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**(e) Employee benefits**

**i) Defined contribution plan**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal and constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**ii) Termination benefits**

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

**iii) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(f) Property, plant and equipment**

**i) Recognition and measurement**

The Company's property, plant and equipment are stated at cost less accumulated depreciation (see accounting policy g (iii) below) and impairment losses [see accounting policy h (ii)] except for the items of land and building which are stated at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to the working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing cost related to the acquisition or construction of qualifying assets is recognised in profit or loss as incurred.

The fair value of land and buildings is determined from market-based evidence by appraisal that is performed by professionally qualified valuers. If there is no market-based evidence of fair value because of the specialised nature of the items and insufficient market information, the Company may estimate fair value using an income or a depreciated replacement cost approach.

The frequency of revaluations depends upon the changes in fair values of the items of land and building. When the fair value of a revalued assets differs materially from its carrying amount, a further revaluation is performed.

When an item of land and building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

If an asset's carrying amount has increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in equity under the heading of 'revaluation surplus'. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount has decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The revaluation surplus included in equity in respect of an item of land and building is transferred to retained earnings as the Company uses such asset. The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. The transfer is made net of deferred tax. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "operating expenses" in profit or loss.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(f) Property, plant and equipment (Continued)**

**ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its costs can be measured reliably.

The carrying amount of the replaced part is derecognised. The costs of day to day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**iii) Depreciation**

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The annual rates for the estimated useful lives for the current and comparative periods are as follows:

	<b>Years</b>
Building	50
Plant & machinery	15
Motor vehicles	4
Furniture, fittings & equipment	8

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

**(g) Impairment**

**i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised costs is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised costs, the reversal is recognised in profit or loss.

**ii) Non-financial assets**

The carrying amount of company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Impairment (Continued)**

**ii) Non-financial assets (Continued)**

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely dependent of the cash inflows of other assets or group of assets (the "cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely dependent of the cash inflows of other assets or group of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(h) Inventories**

Finished goods delivered to customers' consignment stores, under contractual arrangements relating to stock availability, are stated at selling price. Other stocks of finished goods and work in progress are stated at the lower of cost and net realisable value. Cost includes the cost of materials used on a weighted average basis, plus direct labour and factory overheads. Net realisable value is the price at which goods can be sold in the normal course of business after deducting selling and other delivery costs.

Raw materials and consumables are stated at cost less any provision for obsolescence.

**(i) Provisions other than impairment of financial assets**

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(j) Marketable securities**

Investments in quoted securities are held as available for sale and carried at fair value. Changes in the carrying amount of such investments are taken to the available for sale reserve.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Operating lease payments**

Lease payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**(l) Finance costs**

Assets acquired under finance lease agreements are capitalised at their cash cost equivalent, which are depreciated over their expected useful lives along with owned assets. Lease payments are allocated between the lease finance cost and the capital repayments, using the effective interest rate method, and the finance costs are charged to profit or loss.

**(m) Finance leases**

Assets acquired under finance lease agreements are capitalised at their cash cost equivalent, which are depreciated over their expected useful lives along with owned assets. Lease payments are allocated between the lease finance cost and the capital repayments, using the effective interest rate method, and the finance costs are charged to profit or loss.

**(n) New standards and interpretation not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for annual periods beginning on or after 1 January 2017. Those which may be relevant to the Company are set out below. The Company do not plan to adopt these standards early.

<b>New standard or amendments</b>	<b>Effective for annual periods beginning on or after</b>
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 16 Leases	1 January 2019

All Standards and Interpretations will be adopted on their effective dates.

***IFRS 15 Revenue from contracts with customers***

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalizes their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Company did not opt for early adoption as permitted under IFRS 15 in its financial statements for the year ended 31 December 2017 as it continues to monitor, review and assess the impact of this standard.

***Sales of goods***

The Company is in the business of manufacturing and selling woven packaging. Prices for woven packaging are identified separately in contracts with customers.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(n) New standards and interpretation not yet adopted (continued)**

***IFRS 15 Revenue from contracts with customers (continued)***

***Sales of goods (continued)***

Revenue for the sale of woven packaging is currently recognised when products are sold to the customer provided that revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised based on five-step model that is to be applied to all contracts with customers being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

For certain contracts that permit the customer to return an item, revenue is currently recognised when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. If a reasonable estimate cannot be made, then revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

Under IFRS 15, revenue will be recognised for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. As a consequence, for those contracts for which the Company is unable to make a reasonable estimate of return, revenue is expected to be recognised sooner than when the return period lapses or a reasonable estimate can be made.

The Company does not expect material impact relating to this standard given the nature of the contracts it presently has with its customers.

***Transition***

Changes in accounting policies resulting from the adoption of IFRS 15 will be applied by the entity using cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the entity will not apply the requirements of IFRS 15 to the comparative period presented.

***IFRS 9 Financial Instruments***

On 24 July 2014, the IASB issued the final IFRS 9 *Financial Instruments* Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

This standard will have an impact on the Company, which will include changes in the measurement bases of the Company's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Company.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted. The company will implement IFRS 9 with effect from 1 January 2018, with the impact of the cumulative adjustment reflected as an adjustment to opening retained income.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(n) New standards and interpretation not yet adopted (continued)**

***IFRS 9 Financial Instruments (continued)***

***Classification and measurement under IFRS 9***

All financial assets under IFRS 9 are to be initially recognised at fair value, including directly attributable transactions costs (for financial assets not measured at fair value through profit or loss).

Financial assets are to be classified based on (i) the business model within which the financial assets are managed and (ii) the contractual cash flow characteristics of the financial assets (whether the cash flows represent 'solely payment of principal and interest').

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold those assets for the purpose of collecting contractual cash flows and those cash flows comprise solely payments of principal and interest ('hold to collect').

Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and those contractual cash flows comprise solely payments of principal and interest ('hold to collect and sell'). Movements in the carrying amount of these financial assets should be taken through OCI, except for impairment gains or losses, interest revenue and foreign exchange gains or losses, which are recognised in profit or loss. Where the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Other financial assets are measured at FVTPL. All derivative instruments that are either financial assets or financial liabilities will continue to be classified as held for trading and measured at fair value through profit and loss.

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at FVTPL. Changes in the fair value of these financial liabilities that are attributable to the company's own credit risk are recognised in OCI. Where the financial liability is derecognised, the cumulative gain or loss previously recognised in OCI is not reclassified from equity to profit or loss. However, it may be reclassified within equity.

For equity investments that are neither held for trading nor contingent consideration, the company may irrevocably elect to present subsequent changes in fair value of these equity investments in either (i) profit or loss (FVTPL); or (ii) other comprehensive income (FVOCI). Where the equity investment is derecognised, the cumulative gain or loss previously recognised in OCI is not reclassified from equity to profit or loss. However, it may be reclassified within equity.

Based on the assessment of financial assets at 31 December 2017, the company does not expect the impact of the changes to classification and measurement of financial assets to be significant to the company's statement of financial position and performance.

***Impairments under IFRS 9***

Impairments in terms of IFRS 9 will be determined based on an expected credit loss (ECL) model rather than the current incurred loss model required by IAS 39. The company will be required to recognise an allowance for either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

PEE PEE (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) New standards and interpretation not yet adopted (continued)

*IFRS 9 Financial Instruments (continued)*

*Impairments under IFRS 9 (continued)*

The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the entity's best available forward-looking information. The aforementioned probability-weighted outcome must consider the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is low.

The ECL model applies to financial assets measured at amortised cost and FVTOCI, lease receivables and certain loan commitments as well as financial guarantee contracts.

*Disclosures under IFRS 9*

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. The Company's assessment included an analysis to identify data gaps against current processes and the Company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data. Directors have determined that the impact of adopting this standard are immaterial to warrant disclosure in the financial statement for the year ended 31 December 2017.

*Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at 1 January 2018.

*IFRS 16 Leases*

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**IFRS 16 Leases (Continued)**

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15 Revenue from Contracts with Customers. The transitional requirements are different for lessees and lessors. The Company have begun assessing the potential impact on the financial statements resulting from the application of IFRS 16. This standard will most likely have a significant impact on the Company, which will include bringing almost all leases on the statement of financial position.

**4. COMPARATIVE FIGURES**

Where necessary, the comparative figures have been reclassified to conform to changes in presentation in the current year.

**5. GOING CONCERN**

The financial statements are prepared on going concern basis which assumes that the Company will be able to be able to sustain profitable operations and meet the mandatory repayments terms of the bank facilities as disclosed in note 17 and that, the facilities will continue to be available to finance working capital requirements and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

The Company recognised a profit before tax of TZS 361 million for the year ended 31 December 2017 (2016: TZS 210 million). As at the year ended 31 December 2017, the Company had a total assets in excess total liabilities by TZS 11.0 billion (2016: TZS 10.9 billion) and current liabilities exceed current assets by TZS 2.8 billion (2016: TZS 2.8 billion).

**6. REVENUE**

	2017 TZS '000	2016 TZS '000
Local sales	27,481,245	23,609,240
Export sales	4,412,835	2,058,034
<b>Total</b>	<b><u>31,894,080</u></b>	<b><u>25,667,274</u></b>

**7. COST OF SALES**

	2017 TZS '000	2016 TZS '000
<b>Direct costs</b>		
Raw material purchases	20,893,610	17,353,550
Manufacturing expenses	5,853,848	5,154,177
	<u>26,747,458</u>	<u>22,507,727</u>
<b>Add: Opening stock*</b>	<u>9,790,312</u>	<u>8,353,033</u>
	<b>36,537,770</b>	<b>30,860,760</b>
<b>Less: Closing stock*</b>	<u>(9,049,430)</u>	<u>(9,790,312)</u>
	<b><u>27,488,340</u></b>	<b><u>21,070,448</u></b>

\*Excludes goods in transit

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**8. OTHER INCOME**

	<b>2017</b>	<b>2016</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Grant income	556,818	682,767
Dividend on share	1,111	2,450
Other income	51,416	228,884
	<b>609,345</b>	<b>914,101</b>

**9. PROFIT BEFORE TAXATION**

	<b>2017</b>	<b>2016</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Loss before taxation is stated after charging:		
Depreciation expense	1,304,015	1,057,200
Staff pension costs	288,880	200,786
Auditors remuneration	61,987	74,356
Directors remuneration	11,818	10,663
	<b>1,666,700</b>	<b>1,343,005</b>

**10. TAXATION**

<i><b>Taxation charge</b></i>		
Current income tax expense –Alternative Minimum Tax	95,682	-
Deferred tax charge to profit or loss	117,682	100,723
	<b>213,364</b>	<b>100,723</b>

<i><b>Tax rate reconciliation</b></i>		
	<b>2017</b>	<b>2016</b>
	%	%
Standard income tax rate	30.0	30.0
Tax effects on Alternative Minimum Tax	26.5	-
Tax effect of non-deductible expenses	2.6	18.0
<b>Effective income tax rate</b>	<b>59.1</b>	<b>48.0</b>

Tax affairs of the Company are subject to agreement with Tanzania Revenue Authority (TRA).

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**10. TAXATION (CONTINUED)**

The deferred tax liability arises mainly from the following temporary differences:

	Balance at 1 January TZS' 000	Recognised in P&L during the year TZS' 000	Recognised in equity during the year TZS' 000	Balance at 31 December TZS' 000
<b>Year 2017</b>				
<b>Arising from</b>				
Plant, Property and Equipment	4,597,545	(85,880)	-	4,511,665
Provisions	(55,772)	(131,640)	-	(187,412)
Tax losses carried forward	(1,589,862)	335,202	-	(1,254,660)
	<u>2,951,911</u>	<u>117,682</u>	<u>-</u>	<u>3,069,593</u>
<b>Year 2016</b>				
<b>Arising from</b>				
Plant, Property and Equipment	1,846,831	114,030	2,636,683	4,597,545
Provisions	(991,892)	936,120	-	(55,772)
Tax losses carried forward	(640,434)	(949,427)	-	(1,589,862)
	<u>214,505</u>	<u>100,723</u>	<u>2,636,683</u>	<u>2,951,911</u>

PEE PEE (TANZANIA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

11. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings	Plant & machinery	Motor vehicles	Furniture, fittings & equipment	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
<b>Cost or valuation</b>					
At 1 January 2016	4,724,480	15,866,970	311,522	473,819	21,376,791
Additions	19,790	2,336,792	-	55,478	2,412,060
Revaluation	8,012,847	-	-	-	8,012,847
Disposals	-	(4,323,158)	(40,245)	-	(4,363,403)
<b>At 31 December 2016</b>	<b>12,757,117</b>	<b>13,880,604</b>	<b>271,277</b>	<b>529,297</b>	<b>27,438,295</b>
At 1 January 2017	12,757,117	13,880,604	271,277	529,297	27,438,295
Additions	3,319	105,257	6,700	20,764	136,040
Disposals	-	(42,536)	-	-	(42,536)
<b>At 31 December 2017</b>	<b>12,760,436</b>	<b>13,943,325</b>	<b>277,977</b>	<b>550,061</b>	<b>27,531,799</b>
<b>Depreciation</b>					
At 1 January 2016	684,796	8,031,897	281,289	436,540	9,434,522
Charge for the year	91,301	933,980	14,017	17,902	1,057,200
Revaluation	(776,097)	-	-	-	(776,097)
Disposals	-	(3,831,160)	(40,246)	-	(3,871,406)
<b>At 31 December 2016</b>	<b>-</b>	<b>5,134,717</b>	<b>255,060</b>	<b>454,442</b>	<b>5,844,219</b>
At 1 January 2017	-	5,134,717	255,060	454,442	5,844,219
Charge for the year	255,188	1,027,737	7,633	13,457	1,304,015
Disposal	-	(38,852)	-	-	(38,852)
<b>At 31 December 2017</b>	<b>255,188</b>	<b>6,123,602</b>	<b>262,693</b>	<b>467,899</b>	<b>7,109,382</b>
<b>Carrying amounts</b>					
<b>At 31 December 2016</b>	<b>12,757,117</b>	<b>8,745,887</b>	<b>16,217</b>	<b>74,855</b>	<b>21,594,076</b>
<b>At 31 December 2017</b>	<b>12,505,248</b>	<b>7,819,723</b>	<b>15,284</b>	<b>82,162</b>	<b>20,422,417</b>

The fixed assets are utilised as security for the company's banking facilities as described in Note 16.

The Company's Land and Buildings were revalued as at 31 December 2016 by H & R Consultant Limited, registered independent property valuer.

The Net Book Value for Land and Buildings at historical cost as at 31 December 2017 is TZS 3.87 billion (2016: TZS 3.97 billion).

Fair value hierarchy for Land and Building was level 2 which was based on replacement cost method of valuation which involved the following:

- Inspection and assessment of the condition of the property thereby making engineering estimates of the relevant depreciation rate level; and
- determination of the current replacement cost (CRC).

The values of properties were determined by establishing the property's replacement cost. Where the property is not new, the replacement cost was depreciated to reflect accumulated obsolescence which the assets has suffered as a result of passage of time, use abuse, change in taste and technology, wear and tear, and any other adverse factors that may make it less desirable to use. The Depreciated Replacement Cost has been used as a proxy for the market value.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**12. INVESTMENT IN SHARES HELD AS AVAILABLE FOR SALE**

The Company invested in the Initial Public Offering of Tanga Cement Company Limited (TCCL) on the Dar es Salaam stock exchange in August 2002 by purchasing 44,550 ordinary shares at the offer price of TZS 300 per share. This investment has been subsequently revalued at the year-end market price of TZS 1,200 per share (2016: TZS 1,600), with the revaluation loss of TZS 17.8 million (2016: loss of TZS 47.7 million) posted to the available for sale reserve.

Also in 2006, the Company invested in an Initial Public Offering of Tanzania Portland Cement Company Limited (TPCC) by purchasing 1,285 ordinary shares at the offer price of TZS 435. The investment has been subsequently revalued at the year-end market price of TZS 1,460 per share (2016: TZS 2,290), with the revaluation loss of TZS 1.1 million (2016: loss of TZS 0.9 million) posted to the available for sale reserve.

	<b>2017</b>	<b>2016</b>
Balance at 1 January	74,223	122,803
Loss on revaluation	<u>(18,887)</u>	<u>(48,580)</u>
Balance at 31 December	<u><b>55,336</b></u>	<u><b>74,223</b></u>

**13. INVENTORIES AND WORK IN PROGRESS**

	<b>2017</b>	<b>2016</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Finished goods	2,469,101	3,695,826
Work in progress	2,908,585	2,749,272
Raw material and consumables	2,098,740	1,836,281
Goods in transit	1,968,797	-
Spares	<u>1,573,004</u>	<u>1,508,933</u>
	<u><b>11,018,227</b></u>	<u><b>9,790,312</b></u>

**14. TRADE AND OTHER RECEIVABLES**

	<b>2017</b>	<b>2016</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Trade receivables	5,120,628	4,020,967
Provision for bad debts	<u>(102,981)</u>	<u>(102,981)</u>
Net receivables	<u><b>5,017,647</b></u>	<u><b>3,917,986</b></u>
Due from related parties (note 19)	279,178	257,757
Other receivables	1,562,983	229,305
Prepayments and deposits	<u>65,676</u>	<u>158,853</u>
	<u><b>6,925,484</b></u>	<u><b>4,563,901</b></u>

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**15. SHARE CAPITAL**

	2017	2016
	TZS '000	TZS '000
<b>Authorised</b>		
8,000,000 shares of TZS 1,000 each	<u>8,000,000</u>	<u>8,000,000</u>
<b>Issued and fully paid</b>		
4,505,419 Ordinary shares of TZS 1,000 each	<u>4,505,419</u>	<u>4,505,419</u>
	<b>4,505,419</b>	<b>4,505,419</b>
<b>Unpaid up capital</b>		
218,221 Ordinary shares of TZS 1,000 each	<u>218,221</u>	<u>218,221</u>
	<b>4,723,640</b>	<b>4,723,640</b>

**16. EQUITY AND RESERVES**

*Non distributable - Capital reserve*

The non-distributable capital reserve arose in 2000 when the holding company's loan was written back as part of the company capital restructuring process which took effect in 2000.

*Revaluation reserve*

The revaluation reserve represents the amount not yet transferred to retained earnings out of the total revaluation reserve of TZS 8,788.9 million and TZS 769.5 million created in 2016 and 2003 respectively when the company revalued its land and building.

*Available for sale reserve*

This is the reserve arising from revaluation of the company investment in shares to market price at the balance sheet date (see note 12).

*Translation reserve*

This represents exchange differences as a result of translating the financial statements (Kenyan Shillings) of the foreign branch (Kenya branch) into the presentation currency (TZS).

**17. BANK AND OTHER BORROWINGS**

	2017	2016
	TZS '000	TZS '000
<u><i>Long term liabilities</i></u>		
<b>Bank and other borrowings:</b>		
Windmoller & Holscher	698,065	892,898
DTB Term Loan	4,772,927	6,424,317
DTB Post Import Loan	<u>2,946,153</u>	<u>2,870,001</u>
<b>Total long term financing</b>	<b>8,417,145</b>	<b>10,187,216</b>
Less falling due within one year:		
Loan repayments	<u>(4,801,476)</u>	<u>(5,099,191)</u>
	<b>3,615,669</b>	<b>5,088,025</b>
<u><i>Overdrafts:</i></u>		
Diamond Trust Bank Limited-TZS bank account	757,045	704,727
Diamond Trust Bank Limited- US\$ bank account	<u>5,658,361</u>	<u>4,328,427</u>
	<b>6,415,406</b>	<b>5,033,154</b>

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**17. BANK AND OTHER BORROWINGS (CONTINUED)**

The Company has the following credit facilities with Diamond Trust Bank (DTB).

- Term Loan (US\$ 2.8 million) received on 6 November 2013: The facility was used to liquidate the current outstanding term loan at Exim Bank. The interest rate is 12 months LIBOR + 4% with a floor rate of 8% p.a on monthly reducing balance. The tenure is 84 months exclusive of three (3) months moratorium period in monthly instalments from the date of first drawdown. Outstanding amount as at 31 December 2017 is US\$ 1.3 million.
- Term Loan (US\$ 500,000) obtained on 16 January 2014: The facility was used to upgrade the key revenue generating equipment and maintenance of existing plant. The interest rate is 12 months LIBOR + 4% with a floor rate of 8% p.a on monthly reducing balance. The tenure is 36 months exclusive of three 12 months moratorium period in monthly instalments from the date of first drawdown. Outstanding amount as at 31 December 2017 is US\$ 27,778.
- Term Loan (US\$ 1,250,000) received on 30 May 2015: The facility was used for purchasing and installation of production machines. The interest rate is 12 months LIBOR + 4% with a floor rate of 8.25% p.a on monthly basis. The tenure is 60 months with a moratorium period of six months from the date of first drawdown. The facility was taken. Outstanding amount as at 31 December 2017 is US\$ 812,500.
- Asset Financing Loan (Euro 645,890) obtained on 30 December 2014: The facility was used to purchase a production machine. The interest rate on the loan is 3% on a semi-annual basis. The tenure of the loan is 60 months with the first payment due 6 months after acceptance of the machine. Outstanding amount as at 31 December 2017 is Euro 262,231.
- Post Import Loan (US\$ 1.32 million) obtained on 25 October 2016. The facility will be utilized to refinance avalized and open account payments upon maturity as well as to make payments to other suppliers upon submission of valid invoices. The tenure is 12 months. The facility will be repayable over a period of 90 days from date of disbursement, principal and interest in bullet payment. Interest will be charged based on number of days utilized and debited to the account in a bullet payment at the date of liquidation in arrears charged at a rate of 12 months LIBOR + 3% with a floor rate of 7% p.a on monthly balance basis.
- Overdraft Facility (US\$ 1.98 million) obtained on 25 October 2016: The facility is for working capital requirements with a tenure of 12 months. The interest rate is 12 months LIBOR + 3.5% with a floor rate of 7.5% p.a charged on daily outstanding balance. The facility was taken on 25 October 2017.
- Overdraft Facility (US\$ 500,000) obtained on 5 October 2017: The facility is for working capital requirements with a tenure of 90 days. The interest rate is 12 months LIBOR + 4% with a floor rate of 8% p.a charged on daily outstanding balance.
- Overdraft Facility (TZS 700 million) obtained on 25 October 2016: The facility is for working capital requirements with a tenure of 12 months. The interest rate is Banks' Base Rate minus 3.5%; effective 16.5% p.a. charged on daily outstanding balance.
- Insurance Premium Financing (US\$ 55,868 and Tzs 12 million) obtained on 20 June 2017: The facility is for insurance premiums payments with a tenor of 12 months. Interest rates are 8.49% flat for US\$ and 16.49% flat for Tanzania shillings.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**17. BANK AND OTHER BORROWINGS (CONTINUED)**

- The credit facilities are collateralised secured by first legal and continuous mortgage over landed property which comprises of a factory, offices, ancillary building and machineries on Plot no.2,3 and 4, Kange Heavy Industrial Area – Tanga, Tanzania registered in the name of Pee Pee Tanzania Limited (PPTL) with a forced sale value of TZS 22,250,000,000. Other securities held over the facilities are the fixed and floating debenture over all the current and future assets of the Company and personal guarantees of the Directors of the Company.

The movement of borrowings during the year was as follows;

	2017 TZS '000	2016 TZS '000
At start of the year	10,187,216	10,784,260
Additional loan	15,344,050	4,546,132
Loan repayments	<u>(17,114,121)</u>	<u>(5,143,176)</u>
At end of the year	<u>8,417,145</u>	<u>10,187,216</u>

**18. TRADE AND OTHER PAYABLES**

	2017 TZS '000	2016 TZS '000
Trade payables	8,155,138	6,619,643
Accrued expenses	326,748	288,120
Other payables	<u>1,149,071</u>	<u>320,387</u>
	<u>9,630,957</u>	<u>7,228,150</u>

**19. RELATED PARTY TRANSACTIONS**

The ultimate holding company is PP Holdings Limited, a company incorporated in the Isle of Man.

The Company made payments on behalf of PP Holdings in Tanzania, including advances to its visiting directors, and charged these payments back to PP Holdings – resulting in the amount due from parent company of TZS 674.7 million as reflected below.

Advances to directors represent the unpaid balances at the end of the year out of the amounts advanced against their emoluments as well as one unpaid share capital issued to one director.

	2017 TZS '000	2016 TZS '000
<b>Due from related parties</b>		
PP Holdings Limited	260,049	158,251
Advances to Directors	<u>19,129</u>	<u>99,506</u>
	<u>279,178</u>	<u>257,757</u>

There was no outstanding balance due to related parties as at the end of the year.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**19. RELATED PARTY TRANSACTIONS (CONTINUED)**

Compensation to Key Management Personnel were as reflected below.

<b>Key Management Personnel Compensation</b>	<b>2017</b>	<b>2016</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Salaries and short term benefits	<u><b>382,658</b></u>	<u><b>286,236</b></u>

**20. CONTINGENT LIABILITIES**

The Company is defending actions brought by the employees terminated during the year. Although the liability is not admitted, if the defences against the actions are unsuccessful, then claims could amount to TZS 85.5 million (2016: TZS 100 million).

**21. FINANCIAL RISK MANAGEMENT**

The company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Currency risk

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The company's directors have overall responsibility of the establishment and oversight of the company's risk management framework.

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risk adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The management is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risk faced by the company.

***Credit risk***

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's trade and other receivables. The company's exposure to credit risk is influenced mainly by the individual characteristics of a particular receivable.

Trade receivables are from customers within the country of operation of the company, demographics of the company's customer base including the industry and default risk of the country in which customers operate, has less of an influence on credit risk.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**21. FINANCIAL RISK MANAGEMENT (CONTINUED)**

Customers are assessed individually for their creditworthiness before the company standard payment and delivery terms and conditions are offered. Managing Director, Commercial Director and Finance Manager are involved in the evaluation of customers' creditworthiness.

Other receivables are not having standard credit characteristics; they differ depending on whether they are normal prepayments and deposits, "governed by specific prepayment and deposits terms" or the creditworthiness of entity from which they are receivable.

Category of trade and other receivables as defined by IAS 39, analysing the carrying amounts – similar to their fair values at the reporting date and showing maximum exposure to credit risk, if different from carrying amount.

	2017 TZS '000		2016 TZS '000	
	Loans & receivables	Exposure to Credit risk	Loans & receivables	Exposure to Credit risk
Trade receivables	5,120,628	5,120,628	4,020,967	4,020,967
Due from related parties	279,178	-	257,757	-
Other receivables	1,562,983	-	388,158	-
<b>Total</b>	<b><u>6,962,789</u></b>	<b><u>5,120,628</u></b>	<b><u>4,666,882</u></b>	<b><u>4,020,967</u></b>

The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of the allowance is a specific loss component that relates to individually significant exposures. During the year, an allowance of TZS 102.98 million (2016: TZS 102.98 million) has been provided for which represent the long outstanding balance at year end.

The normal payment days for trade receivables ranges from 30 to 60 days depending on the category of customer, the company makes follow up of all trade receivables over 60 days to find out if specific loss components exist for the purpose of establishing impairment allowances. Below is the ageing profile of trade receivables indicating past due and current receivables.

	2017 TZS '000	2016 TZS'000
Not past due	3,522,788	835,468
Past due 30 – 60 days	369,092	1,427,990
Past due 60 – 90 days	73,912	629,850
Past due > 90 days	<u>1,154,836</u>	<u>1,127,659</u>
	<b><u>5,120,628</u></b>	<b><u>4,020,967</u></b>

***Liquidity risk***

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**21. FINANCIAL RISK MANAGEMENT (CONTINUED)**

*Liquidity risk (continued)*

All liquidity policies and procedures are subject to review and approval by the company's board of directors.

Maturity profile of non-derivative financial liabilities based on the contractual cash flows, "undiscounted" including interest and excluding impact of netting is as follows:

2017	Carrying amount TZS '000	Contractual cash flows TZS '000	Within 1 year TZS '000	1 – 2 years TZS '000	2 – 5 years TZS '000	> 5 years TZS '000
Bank and other borrowings	8,417,145	8,417,145	4,801,476	1,803,794	1,811,875	-
Bank overdraft	6,415,406	6,415,406	6,415,406	-	-	-
Trade payables	8,155,138	8,155,138	8,155,138	-	-	-
Other payables	1,149,071	1,149,071	1,149,071	-	-	-
	<u>24,136,760</u>	<u>24,136,760</u>	<u>20,521,091</u>	<u>1,803,794</u>	<u>1,811,875</u>	<u>-</u>
2016	Carrying amount TZS '000	Contractual cash flows TZS '000	Within 1 year TZS '000	1 – 2 years TZS '000	2 – 5 years TZS '000	> 5 years TZS '000
Bank and other borrowings	10,187,216	10,187,216	5,099,191	1,617,299	3,470,726	-
Bank overdraft	5,033,154	5,033,154	5,033,154	-	-	-
Trade payables	6,619,643	6,619,643	6,619,643	-	-	-
Other payables	320,387	320,387	320,387	-	-	-
	<u>22,160,400</u>	<u>22,160,400</u>	<u>17,072,375</u>	<u>1,617,299</u>	<u>3,470,726</u>	<u>-</u>

*Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates etc. will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

*Currency risk*

The company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of the Company, the Tanzanian Shilling (TZS). The currencies in which these transactions primarily are denominated are US Dollars (US\$).

Foreign customers are invoiced in US\$ whilst local customers are invoiced in TZS. On exceptional cases few local customers are invoiced in US\$.

Borrowings are primarily denominated in US\$. There is currency exposure with respect to the Company's borrowings.

Other receivables constitutes of VAT recoverable, prepayments and deposits.

The company mitigates its foreign currency risk through the use of foreign currency denominated accounts in settling foreign currency denominated payables.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**21. FINANCIAL RISK MANAGEMENT (CONTINUED)**

*Currency risk (continued)*

Exposure to currency risk for foreign denominated amounts in the following classes of financial instruments; disclosure around market risk also relates to sensitivity analysis of the type of market risk –currency risk, showing how the income, profit or loss and equity would have been affected by reasonably possible changes in the relevant risk variable at year end date.

	2017 TZS '000	2016 TZS'000
<b>Balances denominated in US\$</b>		
Trade receivables	4,402,917	2,101,786
Cash and cash equivalents	5,370	6,371
Bank overdraft	(5,658,361)	(4,328,427)
Trade payables	(1,693,262)	(3,622,011)
Borrowings	<u>(7,719,078)</u>	<u>(9,294,318)</u>
<b>Net exposure</b>	<b><u>(10,662,414)</u></b>	<b><u>(15,136,599)</u></b>
A sensitivity analysis in relation to net exposure for a 10% strengthening of the US\$ against TZS		
<b>Decrease in equity</b>	<b><u>(1,066,241)</u></b>	<b><u>(1,513,660)</u></b>
<b>Decrease in profit</b>	<b><u>(1,066,241)</u></b>	<b><u>(1,513,660)</u></b>

The rate of exchange as at 31 December 2017 was US\$ 1 = TZS 2,230 (2016; US\$ 1= TZS 2,173) strengthening of US\$ against TZS by 10% means that the rate of exchange will move to US\$ 1 = TZS 2,453 (2016; US\$ 1=TZS 2,390)

**Capital management**

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company's directors monitor the return on capital which the company defines as net operating income divided by total shareholders' equity. The company's directors also monitor the level of dividends to ordinary shareholders.

The Company seeks to maintain a balance between the higher returns that might be possible with acceptable level of borrowings and the advantages and security afforded by the sound capital position.

There were no changes in the company's approach to capital management during the year. The Company is not subjected to externally imposed capital requirements.

**22. ACCOUNTING CLASSIFICATIONS AND FAIR VALUE**

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

(i) Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. This category includes investment in shares whose prices are quoted at Dar es Salaam Stock Exchange (DSE)

(ii) Level 2: Inputs other than quoted prices included within level 1 that are observable either directly or indirectly or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. This category includes bank balances, short-term trade receivables, due from related parties and due to related parties. However, the Company has not disclosed fair values for financial instruments such

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**22. ACCOUNTING CLASSIFICATIONS AND FAIR VALUE (CONTINUED)**

as bank balances, short-term trade receivables and payables because their carrying values are a reasonable approximation of their fair values.

(iii) Level 3: Inputs that are unobservable. This category includes instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on their valuation. The Company does not have financial instruments under this level.

The following table shows the carrying amounts and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy as described above:

<b>2017:</b>	<b>Designated at fair value TZS '000</b>	<b>Held to maturity TZS '000</b>	<b>Loans and receivables TZS '000</b>	<b>Amortised cost TZS '000</b>	<b>Total carrying amount TZS '000</b>
<b>ASSETS</b>					
Cash and cash equivalents	-	-	19,480	-	19,480
Trade and other receivables	-	-	6,925,484	-	6,925,484
Investment in shares	55,259	-	-	-	55,259
	<u>55,259</u>	<u>-</u>	<u>6,944,964</u>	<u>-</u>	<u>7,000,223</u>
<b>LIABILITIES</b>					
Trade and other payables	-	-	-	9,630,395	9,630,395
Bank and other borrowings	-	-	-	8,417,145	8,417,145
	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,047,540</u>	<u>18,047,540</u>
<b>2016:</b>					
	<b>Designated at fair value TZS '000</b>	<b>Held to maturity TZS '000</b>	<b>Loans and receivables TZS '000</b>	<b>Amortised cost TZS '000</b>	<b>Total carrying amount TZS '000</b>
<b>ASSETS</b>					
Cash and cash equivalents	-	-	61,594	-	61,594
Trade receivables and other receivable	-	-	4,563,901	-	4,563,901
Investment in shares	74,223	-	-	-	74,223
	<u>74,223</u>	<u>-</u>	<u>4,625,495</u>	<u>-</u>	<u>4,699,718</u>
<b>LIABILITIES</b>					
Trade payables and other payables	-	-	-	7,228,150	7,228,150
Due to related parties	-	-	-	-	-
Bank and other borrowings	-	-	-	10,187,216	10,187,216
	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,415,366</u>	<u>17,415,366</u>

Amortised cost is an approximate of fair value due to their short term nature or reprice in the short term.

**PEE PEE (TANZANIA) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**23. DISCONTINUED OPERATION**

The company had a foreign branch in Kenya which ceased operations in April 2010. Kenya branch was closed at the beginning of the year 2017 and the statement of financial position of the branch before its closure is shown below;

	<b>2017 TZS '000</b>
<b>ASSETS</b>	
Cash and Cash Equivalents	162
	<u>162</u>
Head office account	414,681
Retained loss	<u>(415,081)</u>
	<u>(400)</u>
<b>LIABILITIES</b>	
Trade and other payables	562
	<u>562</u>
<b>Total liabilities</b>	<u>562</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>162</u>

**24. SUBSEQUENT EVENTS**

At the date of signing the financial statements, the Directors are not aware of any other matter or circumstance arising since the date of the end of the reporting period, not otherwise dealt in these financial statements, which significantly affected the financial position of the Company and results of its operations.