

PEE PEE (TANZANIA) LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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PEE PEE (TANZANIA) LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018

INTRODUCTION

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2018.

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The Company was incorporated in January 1994 in Tanzania under the Companies Ordinance (Cap. 212), repealed and replaced by the Companies Act, 2002 and issued with the certificate of incorporation number 24636.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.

MACRO-ECONOMIC OVERVIEW

In a bid to ensure Tanzania's food security, exports of maize for a large part of 2018 were not permitted. With there being a substantial crop harvested countrywide, it led to a major drop in the prices of this primary food crop. For PPTL the direct impact was the inability of farmers to invest in post-harvest technologies, drying tarpaulins and packaging. Further, as over 60% of the Tanzanian population are either directly or indirectly engaged in agricultural linked activities it also caused a domino effect on formal sector industries that PPTL serves such as the Fertilizer and Sugar industries where demand was also subdued. These circumstances led to PPTL missing its revenue target by 7%, circa TZS 2.5 billion.

FINANCIAL AND OPERATIONAL OVERVIEW

In the last 5 years commencing 2014, PPTL has paid down term loans by US\$ 3.75 million in the face of substantial depreciation of the Tanzania Shilling. This has been managed concurrently whilst restructuring the Company's management, operations and introduction of specialised product lines. Thus, the drop in projected revenue for 2018 led to cash flow challenges which caused a major impact on the Company's operations. Major items that directly impacted the cost of sales were TZS 1.8 billion additional spend on Raw Material sourced from traders and TZS 900 million paid in demurrage and storage charges to the port authorities and shipping lines. A further impact of TZS 500 million on revenue was also attributable directly to the cash flow challenges as the Company made substantial sales at discounted prices to raise short term finance from customers. In June 2019, the parent company has released a first tranche of US\$ 900,000 to support PPTL's working capital with further tranches to follow as per the business plan.

BUSINESS DEVELOPMENT

As detailed in note 22, PPTL's parent company has been successful in raising private equity funding to support PPTL to improve its profitability by improving productivity, focusing on value-added customer services while carefully managing both costs and risks. The Company as well will continue to focus on social impact to the smallholder farmers by introducing technologically innovative products to the market. Over the two years spanning 2019 and 2020, investment into PPTL is projected to be US\$ 7.32 million which will be utilised to support working capital, building of new factory space and additional plant & machinery. For the sake of prudence and in light of the incoming investments, inventory amounting to TZS 1.19 billion with a potential for recovery was provided for.

PEE PEE (TANZANIA) LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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 10 of these financial statements.

PERFORMANCE FOR THE YEAR

During the year ended 31 December 2018 the Company's sales revenue increased to TZS 32.5 billion (2017: TZS 31.9 billion). During the period the Company posted an operating loss of TZS 5 billion (2017: profit of TZS 2 billion), whereas the net loss after tax was TZS 4.6 billion (2017: net profit after tax of TZS 147.6 million).

SOLVENCY

The Company's state of affairs at 31 December 2018 is set out on page 11 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.

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) Conveyance: Staff busses are provided for daily commute of employees.
- g) 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.

PEE PEE (TANZANIA) LIMITED

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

DIRECTORS

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

Name	Nationality	Position
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

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 2018 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 the 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.

PEE PEE (TANZANIA) LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

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 3.7 million (2017: TZS 1.2 million)

AUDITORS

KPMG has expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of KPMG as auditors of the Company will be put to the board meeting.

BY ORDER OF THE BOARD


.....
Suraj Devani
Director

..26.....July.....2019

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 2018, 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...26.....July.....2019 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 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 as under Directors Responsibility statement on an earlier page.

I EFREM KIMARO a professional accountant registered by NBAA hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2018, 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: 

Position: Outsourced Accountant

NBAA Membership No.: ACPA 1620

Date: 26.07. 2019



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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 10 to 41 which comprise the statement of financial position as at 31 December 2018, 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 2018, 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), together with the ethical requirements that are relevant to our audit of the financial statements in Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 5 in the financial statements, which indicates that the Company made a loss before tax of TZS 5 billion during the year ended 31 December 2018 and, as of that date, the Company's current liabilities exceed current assets by TZS 8.6 billion. As stated in Note 5, these events or conditions, along with other matters as set forth in Note 5, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, 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.



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

Responsibilities of Directors for the Financial Statements

As stated on page 5, 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.

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: 26/07/2019

PEE PEE (TANZANIA) LIMITED

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


	Notes	2018 TZS '000	2017 TZS '000
Revenue	6	32,494,388	31,894,080
Cost of sales	7	<u>(32,051,247)</u>	<u>(27,488,340)</u>
Gross profit		443,141	4,405,740
Other income	8	216,006	609,345
(Loss)/ profit on disposal of assets		(17,281)	15,384
Administrative expenses		(2,360,117)	(2,036,624)
Inventory obsolescence		(1,191,872)	-
Post-harvest technology project	18	(96,936)	-
Selling and distribution expenses		<u>(563,213)</u>	<u>(948,617)</u>
Results from operating activities		(3,570,272)	2,045,228
Finance costs		(1,041,529)	(1,162,550)
Foreign exchange loss		<u>(381,495)</u>	<u>(521,726)</u>
Loss/ (profit) before taxation	9	(4,993,296)	360,952
Tax credit/ (charge)	10	<u>433,202</u>	<u>(213,364)</u>
(Loss)/profit for the year		(4,560,094)	147,588
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Fair value through other comprehensive income financial assets	12	<u>(24,177)</u>	<u>(18,887)</u>
Other comprehensive loss, net of tax		(24,177)	(18,887)
Total comprehensive (loss)/ income for the year		<u>(4,584,271)</u>	<u>128,701</u>

The notes on pages 14 to 41 form part of these financial statements.

Report of the Auditor – page 7 to 9.

PEE PEE (TANZANIA) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

ASSETS	Notes	2018 TZS '000	2017 TZS '000
Property, plant and equipment	11	19,298,753	20,422,417
Investment in shares	12	31,159	55,336
		<u>19,329,912</u>	<u>20,477,753</u>
Non-current assets			
Inventories	13	7,040,323	11,018,227
Trade and other receivables	14	4,705,882	6,925,484
Income tax recoverable	10	63,673	91,102
Cash and cash equivalents		65,628	19,642
Current assets		<u>11,875,506</u>	<u>18,054,455</u>
Total assets		<u>31,205,418</u>	<u>38,532,208</u>
EQUITY			
Share capital	15	4,723,640	4,723,640
Non-distributable capital reserve	16	88,638	88,638
Revaluation reserve	16	6,412,069	6,559,181
Fair value through other comprehensive income	16	17,434	41,611
Retained loss		<u>(4,826,945)</u>	<u>(413,963)</u>
Total equity		<u>6,414,836</u>	<u>10,999,107</u>
LIABILITIES			
Bank and other borrowings	17	1,853,476	3,615,669
Deferred tax liability	10	2,506,568	3,069,593
Non-current liabilities		<u>4,360,044</u>	<u>6,685,262</u>
Bank overdraft	17	3,187,002	6,415,406
Current portion of bank and other borrowings	17	7,907,610	4,801,476
Deferred income	18	246,489	-
Trade and other payables	19	9,089,437	9,630,957
Current liabilities		<u>20,430,538</u>	<u>20,847,839</u>
Total liabilities		<u>24,790,582</u>	<u>27,533,101</u>
Total equity and liabilities		<u>31,205,418</u>	<u>38,532,208</u>


 Suraj Devani
 Director

26 July 2019

The notes on pages 14 to 41 form part of these financial statements.
 Report of the Auditor – page 7 to 9

PEE PEE (TANZANIA) LIMITED

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

	Share capital TZS '000	Non distributable reserve TZS '000	Revaluation reserve TZS '000	Available for sale reserve TZS '000	Retained earnings TZS '000	Translation reserve TZS '000	Total TZS '000
Balance as at 1 January 2017	4,723,640	88,638	6,706,291	60,498	(648,562)	(60,099)	10,870,406
Total comprehensive (loss)/income for the period							
Profit for the year	-	-	-	-	147,588	-	147,588
Other comprehensive loss	-	-	-	(18,887)	-	-	(18,887)
Total comprehensive (loss)/income for the period				(18,887)	147,588	-	128,701
Transfer of surplus depreciation on revaluation	-	-	(147,110)	-	147,110	-	-
Translation of foreign operations	-	-	-	-	(60,099)	60,099	-
Balance as at 31 December 2017	4,723,640	88,638	6,559,181	41,611	(413,963)	-	10,999,107
Balance as at 1 January 2018	4,723,640	88,638	6,559,181	41,611	(413,963)	-	10,999,107
Total comprehensive loss for the period							
Loss for the year	-	-	-	-	(4,993,296)	-	(4,993,296)
Other comprehensive loss	-	-	-	(24,177)	-	-	(24,177)
Total comprehensive loss for the period				(24,177)	(4,993,296)	-	(5,017,473)
Transfer of surplus depreciation on revaluation	-	-	(147,112)	-	147,112	-	-
Balance as at 31 December 2018	4,723,640	88,638	6,412,069	17,434	(5,260,147)	-	5,981,634

The notes on pages 14 to 41 form part of these financial statements.

Report of the Auditors – page 7 to 9

PEE PEE (TANZANIA) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 TZS'000	2017 TZS '000
Cash Flows from operating activities			
(Loss)/ profit for the year before tax		(4,993,296)	360,952
Adjustments for:			
- Depreciation	11	1,184,117	1,304,015
- Loss/ (gain) on disposal of property, plant and equipment		17,281	(15,384)
- Dividends income on TCC & TPCC shares		<u>-</u>	<u>(1,111)</u>
		(3,791,898)	1,648,472
Change in:			
- Inventories		3,977,904	(1,227,915)
- Trade and other receivables		2,219,602	(2,361,583)
- Trade and other payables		<u>(541,520)</u>	<u>2,402,807</u>
Cash generated from operating activities		1,864,088	461,781
Tax paid	10	<u>(102,394)</u>	<u>(53)</u>
Net cash generated from operating activities		1,761,694	461,728
Investing activities			
Acquisitions of property, plant and equipment	11	(102,868)	(136,040)
Proceeds from sale of assets		25,134	19,068
Dividends received on TCC & TPCC shares		<u>-</u>	<u>1,111</u>
Net cash used in investing activities		(77,734)	(115,861)
Financing activities			
Loan received	17	20,221,863	15,344,050
Movement in deferred grant income	18	246,489	-
Repayment of borrowings	17	<u>(18,877,922)</u>	<u>(17,114,121)</u>
Net cash generated from/ (used in) financing activities		1,590,430	(1,770,071)
Net increase/ (decrease in) cash and cash equivalents		3,274,390	(1,424,204)
Cash and cash equivalents at 01 January		(6,395,764)	(4,971,560)
Cash and cash equivalents at 31 December		<u>(3,121,374)</u>	<u>(6,395,764)</u>
Composition of cash and cash equivalents is as follows:			
Bank and cash balances		65,628	19,642
Bank overdraft		<u>(3,187,002)</u>	<u>(6,415,406)</u>
		<u>(3,121,374)</u>	<u>(6,395,764)</u>

The notes on pages 14 to 41 form part of these financial statements.
Report of the Auditor – page 7 to 9

PEE PEE (TANZANIA) LIMITED

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

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 2018.

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

- **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 2018 (CONTINUED)**

2. BASIS OF PREPARATION (CONTINUED)

(e) Changes in significant accounting policies

The Company has applied IFRS 15 and IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards since the Company has assessed that there is no material effect.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgment.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The Company's assessment indicated that there was no impact on the retained earnings as a result of the transition to IFRS 15, as there was no revenue recognised towards the end of the year that would have been treated differently under IFRS 15 as compared to IAS 18. There is also no change in the amount of revenue that would have been recognised in 2018 had the Company continued to apply IAS 18.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

i) Classification and measurements of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

PEE PEE (TANZANIA) LIMITED

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

2. BASIS OF PREPARATION (CONTINUED)

(e) Changes in significant accounting policies (continued)

i) Classification and measurements of financial assets and financial liabilities (continued)

The following table explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
			TZS'000	TZS'000
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	19,642	19,642
Trade and other receivables	Loans and receivables	Amortised cost	6,925,484	6,925,484
Investment in shares	Available for sale	FVOCI	55,336	55,336
Total			7,000,462	7,000,462
Financial liabilities				
Trade and other payables	Amortised cost	Amortised cost	9,630,957	9,630,957
Bank and other borrowings	Amortised cost	Amortised cost	8,417,145	8,417,145
Total			18,048,102	18,048,102

The impact of the changes in classification on the carrying values of the financial assets and financial liabilities under IAS 39 to IFRS 9 as at 1 January 2018 was determined to be immaterial, and hence no adjustments were made to the carrying values.

ii) Impairment of financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 did not result in an additional allowance for impairment.

iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except where the Company has made use of the exemption not to restate the comparative information for prior periods with respect to classification and measurement (including impairment) requirements. The information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

PEE PEE (TANZANIA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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 from contracts with customers

The Company has initially applied IFRS 15 from 1 January 2018. The revenues comes from sales of woven packaging and is recognised at a point in time. This is considered to be when goods are delivered to the customer. The effect of initially applying IFRS 15 is described in Note 2(e).

The Company applies the revenue accounting policies based on the features of the contracts and business practices of its operations.

Policy applicable from 1 January 2018

Revenue is measured based on the consideration the Company expects to be entitled from the contract with the customer and excludes those amounts collected on behalf of third parties. The Company recognises revenue when it transfers control over a product or service to a customer. This is considered to be on delivery of goods to customer (including delivery to consignment stores) or on collection of goods by customer, and is stated net of VAT, discounts and rebates.

Contract combinations and modifications

The Company combines separate customer contracts with the same customer, or related parties of the same customers, entered into at or near the same time when those contracts are negotiated as a package to form a single commercial objective, and are significantly interdependent in nature or in pricing.

Contract modifications are generally treated either as a new separate contract, or as a prospective change to an existing contract.

Performance obligations

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers:

Type of product/service	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Woven packaging	Customers obtain control of the goods as they are delivered or on collection of goods.	Revenue is recognised at a point in time when goods are delivered or collected by customer. If goods are dispatched and delivered to the customer in different reporting periods then the consideration is recognised when goods are delivered and accepted by the customer.	Revenue was recognised when the goods were delivered to the customers' premises or collected the goods, which was taken to be the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred.

PEE PEE (TANZANIA) LIMITED

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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**

i) **Recognition and initial measurement**

Policy applicable from 1 January 2018

The Company initially recognises loans and borrowings, trade and other receivables and debt securities issued on the date when they originated. All other financial assets and financial liabilities are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

PEE PEE (TANZANIA) LIMITED

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial Instruments (Continued)

ii) Classification and subsequent measurement

Financial assets – policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

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.

i) Derivative financial instruments

The Company does not have derivative financial instruments.

ii) 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.

PEE PEE (TANZANIA) LIMITED

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(f) Property, plant and equipment

i) Recognition and measurement

The Company's property, plant and equipment are stated at cost less accumulated depreciation and impairment losses 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.

PEE PEE (TANZANIA) LIMITED

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment (Continued)

i) Recognition and measurement (continued)

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 a statement of profit or loss and other comprehensive income.

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 statement of profit or loss and other comprehensive income.

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 statement of profit or loss and other comprehensive income.

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:

	Years
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.

PEE PEE (TANZANIA) LIMITED

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment

i) Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Company measures loss allowances at an amount equal to lifetime ECLs. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

The Company considers a financial asset to be in default when:

- the borrower/customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

Measurement of ECL's

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the customer or borrower;
- a breach of contract such as a default or being more than 60 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the customer/borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

PEE PEE (TANZANIA) LIMITED

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

i) Non-derivative financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Credit-impaired financial assets (continued)

The Company measures loss allowances at an amount equal to lifetime ECLs. Loss allowances for receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of customer or borrower;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost.

PEE PEE (TANZANIA) LIMITED

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

i) Non-derivative financial assets (continued)

Policy applicable before 1 January 2018 (continued)

Financial assets measured at amortised cost	The Company considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.
	In assessing collective impairment, the Company used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.
	An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Company considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.
Available for sale financial assets	Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

ii) Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. 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.

PEE PEE (TANZANIA) LIMITED

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

PEE PEE (TANZANIA) LIMITED

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) New standards and interpretation not yet adopted

At the date of authorisation of the financial statements of the Company for the year ended 31 December 2018, the following Standards and Interpretations were in issue but not yet effective:

Effective for the financial year commencing 1 January 2019

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)
- Annual Improvements to IFRS Standards 2015/2017 Cycle various standards

Effective for the financial year commencing 1 January 2020

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

Effective for the financial year commencing 1 January 2022

- IFRS 17 Insurance Contracts

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

A number of these Standards and Interpretations are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining applicable Standard will be as follows:

IFRS 16 Leases

IFRS 16 was published in January 2016. It 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'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 includes a single model for lessees which will result in almost all leases being included in the Statement of Financial Position. No significant changes have been included for lessors. IFRS 16 also includes extensive new disclosure requirements for both lessees and lessors.

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

PEE PEE (TANZANIA) LIMITED

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

IFRS 16 Leases (continued)

i. Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Company will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Company will include the payments due under the lease in its lease liability. No significant impact is expected for the Company's finance leases.

Based on the information currently available, the Company estimates that this standard will not have material impact on the financial statements.

ii. Leases in which the Company is a lessor

The Company is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

No significant impact is expected for leases in which the Company is a lessor.

iii. Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company also plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(o) Grant income

The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

4. COMPARATIVE FIGURES

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

PEE PEE (TANZANIA) LIMITED

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

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 loss before tax of TZS 5 billion for the year ended 31 December 2018 (2017: profit before tax of TZS 361 million). As at the year ended 31 December 2018, the Company had a total current liabilities exceed current assets by TZS 8.6 billion (2017: TZS 2.8 billion). These events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern, and therefore that the Company may be unable to realise their assets and discharge their liabilities in the normal cause of the business.

Subsequent to the year end, the parent company has formalised a shareholding agreement with AgriVie Fund-II to for an equity injection, refer to note 23 on subsequent event.

6. REVENUE

The effect of initially applying IFRS 15 on the Company's revenue from contracts with customers is described in note 2(e). Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

Revenue streams

The Company generates revenue primarily from sales of woven packaging. Other sources of revenue includes revenue from sales of recycle materials and laminated sheets.

	2018 TZS '000	2017 TZS '000
Local sales	26,062,197	27,481,245
Export sales	6,432,191	4,412,835
Total	32,494,388	31,894,080

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	2018 TZS '000	2017 TZS '000
Trade receivables	4,454,366	5,120,628
Contract assets	-	-
Contract liabilities	-	-
Total	4,454,366	5,120,628

PEE PEE (TANZANIA) LIMITED

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

7. COST OF SALES

	2018	2017
	TZS '000	TZS '000
Direct costs		
Raw material purchases	24,092,350	20,893,610
Manufacturing expenses	5,737,998	5,853,848
Inventory obsolescence (see note 13)	<u>(1,191,872)</u>	<u>-</u>
	28,638,476	26,747,458
Add: Opening stock*	<u>9,049,430</u>	<u>9,790,312</u>
	37,687,906	36,537,770
Less: Closing stock*	<u>(5,636,659)</u>	<u>(9,049,430)</u>
	32,051,247	27,488,340

*Excludes goods in transit

8. OTHER INCOME

Grant income	96,936	556,818
Dividend on share	-	1,111
Other income	<u>119,070</u>	<u>51,416</u>
	216,006	609,345

9. PROFIT BEFORE TAXATION

Loss before taxation is stated after charging:		
Depreciation expense	1,184,117	1,304,015
Staff pension costs	121,603	51,172
Auditors remuneration	70,393	61,987
Directors remuneration	<u>6,822</u>	<u>11,818</u>

PEE PEE (TANZANIA) LIMITED

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

10. TAXATION

	2018 TZS'000	2017 TZS'000		
<u>Taxation charge</u>				
Current income tax expense –Alternative Minimum Tax (AMT)	129,823	95,682		
Deferred tax charge to profit or loss	<u>(563,025)</u>	<u>117,682</u>		
	<u>(433,202)</u>	<u>213,364</u>		
<u>Income tax recoverable/ (payable)</u>				
At the beginning of the year	91,102	186,731		
Current tax charge	(129,823)	(95,682)		
Tax paid	<u>102,394</u>	<u>53</u>		
	<u>63,673</u>	<u>91,102</u>		
	2018	2018	2017	2017
<u>Tax rate reconciliation</u>	%	TZS'000	%	TZS'000
Tax at standard rate of current tax	30	1,497,989	30.0	108,286
The standard rate has been affected by:				
- Tax effects on AMT	(2.6)	(129,823)	26.5	95,682
- Tax effect of deferred tax prior year under-provisions	(11.1)	(554,548)	-	-
- Tax effect of non-deductible expenses	(7.6)	(380,416)	2.6	9,396
Effective current tax	<u>8.7</u>	<u>433,202</u>	<u>59.1</u>	<u>213,364</u>

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
Year 2018				
Arising from				
Plant, Property and Equipment	4,511,665	(56,224)	4,455,441	4,455,441
Provisions	(187,412)	187,412	-	-
Tax losses carried forward	<u>(1,254,660)</u>	<u>(694,213)</u>	<u>(1,948,873)</u>	<u>(1,948,873)</u>
	3,069,593	(563,025)	2,506,568	2,506,568
Year 2017				
Arising from				
Plant, Property and Equipment	4,597,545	(85,880)	-	4,511,665
Provisions	(55,772)	(131,640)	-	(187,412)
Tax losses carried forward	<u>(1,589,862)</u>	<u>335,202</u>	<u>-</u>	<u>(1,254,660)</u>
	<u>2,951,911</u>	<u>117,682</u>	<u>-</u>	<u>3,069,593</u>

PEE PEE (TANZANIA) LIMITED

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

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
Cost or valuation					
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)
At 31 December 2017	12,760,436	13,943,325	277,977	550,061	27,531,799
At 1 January 2018	12,760,436	13,943,325	277,977	550,061	27,531,799
Additions	55,791	43,148	-	3,929	102,868
Disposals	-	(64,220)	(5,000)	-	(69,220)
At 31 December 2018	12,816,227	13,922,253	272,977	553,990	27,565,447
Depreciation					
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
Disposals	-	(38,852)	-	-	(38,852)
At 31 December 2017	255,188	6,123,602	262,693	467,899	7,109,382
At 1 January 2018	255,188	6,123,602	262,693	467,899	7,109,382
Charge for the year	255,209	907,588	7,050	14,270	1,184,117
Disposal	-	(21,805)	(5,000)	-	(26,805)
At 31 December 2018	510,397	7,009,385	264,743	482,169	8,266,694
Carrying amounts					
At 31 December 2017	12,505,248	7,819,723	15,284	82,162	20,422,417
At 31 December 2018	12,305,830	6,912,868	8,234	71,821	19,298,753

The fixed assets are utilised as security for the Company's banking facilities as described in Note 17.

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

The Net Book Value of Land and Buildings at historical cost as at 31 December 2018 is TZS 3.78 billion (2017: TZS 3.87 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 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 test 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 proxy for the market value.

PEE PEE (TANZANIA) LIMITED

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

12. INVESTMENT IN SHARES HELD AS FVOCI

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 640 per share (2017: TZS 1,200), with the revaluation loss of TZS 24.9 million (2017: loss of TZS 17.8 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 2,060 per share (2017: TZS 1,460), with the revaluation gain of TZS 0.8 million (2017: revaluation loss of TZS 1.1 million) posted to the available for sale reserve.

	2018	2017
	TZS '000	TZS '000
Balance at 1 January	55,336	74,223
Loss on revaluation	<u>(24,177)</u>	<u>(18,887)</u>
Balance at 31 December	<u>31,159</u>	<u>55,336</u>

13. INVENTORIES AND WORK IN PROGRESS

Finished goods	1,865,332	2,469,101
Work in progress	1,283,891	2,908,585
Raw material and consumables	1,440,458	2,098,740
Goods in transit	1,403,664	1,968,797
Spares	<u>1,046,978</u>	<u>1,573,004</u>
	<u>7,040,323</u>	<u>11,018,227</u>

Inventories have been reduced by TZS 1,191,872 as a result of the inventory obsolescence. The value reflects predominantly the material, spares and consumables of old machines purchased between FY 1996-2015. These items have a potential for recovery but as the company was under negotiations for further investment, management decided to be prudent and carry these items at zero value. This obsolescence was recognised as an expense during 2018.

14. TRADE AND OTHER RECEIVABLES

See accounting policies in note 3 (a) and (g). The effect of initially applying IFRS 15 and IFRS 9 is described in note 2(e).

	2018	2017
	TZS '000	TZS '000
Trade receivables	4,530,678	5,120,628
Provision for bad debts	<u>(59,949)</u>	<u>(102,981)</u>
Net receivables	<u>4,470,729</u>	<u>5,017,647</u>
Due from related parties (note 19)	9,969	693,859
Other receivables	8,824	1,148,302
Prepayments and deposits	<u>216,360</u>	<u>65,676</u>
	<u>4,705,882</u>	<u>6,925,484</u>

PEE PEE (TANZANIA) LIMITED

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

15. SHARE CAPITAL

	2018 TZS '000	2017 TZS '000
Authorised		
8,000,000 shares of TZS 1,000 each	<u>8,000,000</u>	<u>8,000,000</u>
Issued and fully paid		
4,505,419 Ordinary shares of TZS 1,000 each	<u>4,505,419</u>	<u>4,505,419</u>
	4,505,419	4,505,419
Unpaid up capital		
218,221 Ordinary shares of TZS 1,000 each	<u>218,221</u>	<u>218,221</u>
	<u>4,723,640</u>	<u>4,723,640</u>

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.

Fair value

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

17. BANK AND OTHER BORROWINGS

	2018 TZS '000	2017 TZS '000
<u>Long term liabilities</u>		
Bank and other borrowings:		
Windmoller & Holscher	265,667	698,065
DTB Term Loan	3,336,276	4,772,927
DTB Post Import Loan	<u>6,159,143</u>	<u>2,946,153</u>
Total bank and other borrowings	9,761,086	8,417,145
Less falling due within one year:		
Current portion	<u>(7,907,610)</u>	<u>(4,801,476)</u>
	<u>1,853,476</u>	<u>3,615,669</u>
<u>Overdrafts:</u>		
Diamond Trust Bank Limited-TZS bank account	-	757,045
Diamond Trust Bank Limited- US\$ bank account	<u>3,187,002</u>	<u>5,658,361</u>
	<u>3,187,002</u>	<u>6,415,406</u>

PEE PEE (TANZANIA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (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 2018 is US\$ 900,000.
- 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. The loan was fully repaid in the period under review.
- 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 2018 is US\$ 562,500.
- 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 2018 is US\$ 101,590.
- Post Import Loan (US\$ 2.7 million) obtained on 01 August 2018. 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 120 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 6.75% p.a on monthly balance basis.
- Overdraft Facility (US\$ 1.4 million) obtained on 01 August 2018: 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 7.25% p.a charged on daily outstanding balance. The facility was taken on 25 October 2017.
- Insurance Premium Financing (US\$ 70,827 and Tzs 11.9 million) obtained on 21 June 2018: The facility is for insurance premiums payments with a tenor of 12 months. No interest charged on both US\$ and Tanzania shillings loan facilities. Outstanding amount as at 31 December 2018 is US\$ 23,611 and Tzs 3,965,969.
- 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.

PEE PEE (TANZANIA) LIMITED

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

17. BANK AND OTHER BORROWINGS (CONTINUED)

The movement of borrowings during the year was as follows;

	2018	2017
	TZS '000	TZS '000
At start of the year	8,417,145	10,187,216
Additional loan	20,221,863	15,344,050
Loan repayments	<u>(18,877,922)</u>	<u>(17,114,121)</u>
At end of the year	<u>9,761,086</u>	<u>8,417,145</u>

18. DEFERRED INCOME

Opening balance	-	-
Receipts for the period	343,425	-
Grant income released to the statement of profit or loss and other comprehensive income	<u>(96,936)</u>	<u>-</u>
Balance at 31 December	<u>246,489</u>	<u>-</u>

PPTL has entered subcontract with RUDI and BRITEN for USD 125,000 and USD 250,000 respectively under AMDT to collaborate in the implementation of Post-Harvest technologies that includes supply and distribution of post-harvest equipment like PICS and Tarpaulin in addition to the training and development of smallholders

19. TRADE AND OTHER PAYABLES

	2018	2017
	TZS '000	TZS '000
Trade payables	7,485,742	8,155,138
Accrued expenses	910,887	326,748
Other payables	<u>692,808</u>	<u>1,149,071</u>
	<u>9,089,437</u>	<u>9,630,957</u>

20. 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 9.97 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.

	2018	2017
	TZS '000	TZS '000
Due from related parties		
PP Holdings Limited	9,969	674,730
Advances to Directors	<u>-</u>	<u>19,129</u>
	<u>9,969</u>	<u>693,859</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 2018 (CONTINUED)

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation to Key Management Personnel were as reflected below.

Key Management Personnel Compensation	2018 TZS '000	2017 TZS '000
Salaries and short term benefits	<u>406,037</u>	<u>382,658</u>

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 2018

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 IFRS 9, 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.

	2018 TZS '000		2017 TZS '000	
	Amortised cost	Exposure to Credit risk	Amortised cost	Exposure to Credit risk
Trade receivables	4,219,213	4,219,213	5,120,628	5,120,628
Due from related parties	9,969	-	279,178	-
Other receivables	8,824	-	1,562,983	-
Total	4,238,006	4,219,213	6,962,789	5,120,628

The Company establishes an allowance for impairment that represents its estimate of expected credit 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 59.95 million (2017: 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.

	2018 TZS '000	2017 TZS'000
Not past due	2,559,319	3,522,788
Past due 30 – 60 days	994,921	369,092
Past due 60 – 90 days	56,511	73,912
Past due > 90 days	608,462	1,154,836
	4,219,213	5,120,628

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 2018

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:

2018	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	9,761,086	9,761,086	7,907,610	1,055,069	798,407	-
Bank overdraft	3,187,002	3,187,002	3,187,002	-	-	-
Trade payables	7,480,715	7,480,715	7,480,715	-	-	-
Other payables	692,808	692,808	692,808	-	-	-
	21,121,611	21,121,611	19,268,135	1,055,069	798,407	-
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	-	-	-
	24,136,760	24,136,760	20,521,091	1,803,794	1,811,875	-

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.

PEE PEE (TANZANIA) LIMITED

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

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

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

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.

	2018 TZS '000	2017 TZS'000
Balances denominated in US\$		
Trade receivables	595,836	4,402,917
Cash and cash equivalents	8	5,370
Bank overdraft	3,187,002	(5,658,361)
Trade payables	(4,445,474)	(1,693,262)
Borrowings	<u>(9,761,086)</u>	<u>(7,719,078)</u>
Net exposure	<u>(10,423,714)</u>	<u>(10,662,414)</u>
A sensitivity analysis in relation to net exposure for a 10% strengthening of the US\$ against TZS		
Decrease in equity	<u>(1,042,371)</u>	<u>(1,066,241)</u>
Decrease in profit	<u>(1,042,371)</u>	<u>(1,066,241)</u>

The rate of exchange as at 31 December 2018 was US\$ 1 = TZS 2,281 (2017; US\$ 1= TZS 2,230) strengthening of US\$ against TZS by 10% means that the rate of exchange will move to US\$ 1 = TZS 2,509 (2017; US\$ 1=TZS 2,453)

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.

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)

PEE PEE (TANZANIA) LIMITED

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

22. ACCOUNTING CLASSIFICATIONS AND FAIR VALUE (CONTINUED)

(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 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:

2018:	FVOCI TZS '000	Financial assets at mortised cost TZS '000	Amortised cost TZS '000	Total carrying amount TZS '000
ASSETS				
Cash and cash equivalents	-	65,628	-	65,628
Trade and other receivables	-	4,454,366	-	4,454,366
Investment in shares	31,159	-	-	31,159
	<u>31,159</u>	<u>4,519,994</u>	<u>-</u>	<u>4,551,153</u>
LIABILITIES				
Trade and other payables	-	-	9,084,410	9,084,410
Bank and other borrowings	-	-	9,761,086	9,761,086
	<u>-</u>	<u>-</u>	<u>18,845,496</u>	<u>18,845,496</u>
2017:	Available for sale TZS '000	Loans and receivables TZS '000	Amortised cost TZS '000	Total carrying amount TZS '000
ASSETS				
Cash and cash equivalents	-	19,480	-	19,480
Trade receivables and other receivable	-	6,925,484	-	6,925,484
Investment in shares	55,259	-	-	55,259
	<u>55,259</u>	<u>6,944,964</u>	<u>-</u>	<u>7,000,223</u>
LIABILITIES				
Trade payables and other payables	-	-	9,630,395	9,630,395
Bank and other borrowings	-	-	8,417,145	8,417,145
	<u>-</u>	<u>-</u>	<u>18,047,540</u>	<u>18,047,540</u>

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

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23. SUBSEQUENT EVENTS

On 1 February 2019 the parent company formalised a shareholding agreement with AgriVie Fund-II to for an equity injection of USD 7.92 million and obtained the necessary statutory FCC approvals. USD 4.82 Million has been earmarked for investment in Pee Pee (Tanzania) Limited and USD 3.1 Million in a new manufacturing unit. AgrVie Fund-II is also assisting the group in raising Development Finance through Institutional funding from AgDevCo in the form of long term debt of USD 5.0 Million, half of which will be invested in Pee Pee (Tanzania) Limited raising the total investment to USD 7.32 Million.

The first disbursement of USD 900,000 has been made to Pee Pee (Tanzania) Limited in June 2019 with further disbursement to follow as per the project plan.