

**PEE PEE (TANZANIA) LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

*Pee Pee (Tanzania) Limited*  
*Annual report and financial statements*  
*For the year ended 31 December 2019*

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**COMPANY INFORMATION**

	<b>Name of Director</b>	<b>Nationality</b>	<b>Position</b>
<b>BOARD OF DIRECTORS</b>	: Mr. Suraj Kantilal P Devani	Kenyan	Director
	: Mr. Taranjit Singh Saini	Indian	Managing Director

**REGISTERED OFFICE AND  
PRINCIPAL PLACE OF BUSINESS**

- : Plot No. 2
- : Kange Industrial Area
- : P.O. Box 34
- : Tanga

**INDEPENDENT AUDITOR**

- : PKF Associates Tanzania
- : P.O. Box 7323
- : Dar-es-Salaam

**COMPANY SECRETARY**

- : Mr. Suraj Kantilal P Devani
- : Kange Industrial Area
- : P.O. Box 34
- : Tanga

**PRINCIPAL BANKERS**

- : Diamond Trust Bank Limited
- : Tanga Branch
- : P.O. Box 5037
- : Tanga

**REPORT OF THE DIRECTORS**

The directors submit their report and the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of Pee Pee (Tanzania) Limited ("the company").

**INCORPORATION**

Pee Pee (Tanzania) Limited is a private company limited by shares. The Company was incorporated in January 1994 in Tanzania under the Companies Ordinance (Cap 212), repealed and replaced by the Companies Act, 2002 and was issued with a certificate of incorporation number 24636.

**PRINCIPAL ACTIVITY**

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

**MACRO-ECONOMIC OVERVIEW**

Overall, 2019 was a positive year for the sectors that PPTL services with its product lines. Due to the ripple effect of the 2018 maize export ban, there wasn't much excess crop and thus demand for Hermetic Storage in Tanzania was limited. This was to a large part mitigated in the second half of the year by opening up export markets into Malawi for the PICS bags.

**FINANCIAL AND OPERATIONAL OVERVIEW**

As disclosed in subsequent events in the financial statements for 2018, PPTL's parent company PPHL has been successful in raising funding to support and expand the company's operations. The fair competition commission approved the investment at the end of April 2019 which allowed PPHL to fund a capital injection in early June to support the working capital requirements of PPTL.

Operationally, the first half of 2019 was extremely tough due to major electricity constraints caused by ongoing maintenance in Tanga region which led to lower than budgeted production and the company was unable to meet demand for its products. The power situation started improving in June and stabilized by July allowing the company to ramp up production which lead to a highly positive end to 2019.

**BUSINESS DEVELOPMENT**

The total project budget of US\$ 7.32 million submitted by management for expansion of existing activities and development of new projects was approved by the board in its entirety. The project funding has also been secured by way of US\$ 4.82 million being invested by PPHL and the balance US\$ 2.5 million subsequently (March 2020) secured from AgDevCo. By end 2019, total investment funds disbursed by PPHL stood at US\$ 3.275 million and subsequently a further combined US\$ 1.875 million have been disbursed by AgDevCo and PPHL.

Construction for the expansion has commenced and machinery has also been ordered with a schedule for completion by end 2020. The development for the new projects is expected to commence in the second half of 2020.

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**REPORT OF THE DIRECTORS (CONTINUED)**

<b>RESULTS</b>	<b>2019</b> <b>Tshs'000</b>	<b>2018</b> <b>Tshs'000</b>
Loss before tax	(175,132)	(4,993,296)
Tax (charge)/credit	<u>(360,783)</u>	<u>433,202</u>
Loss for the year	<u><u>(535,915)</u></u>	<u><u>(4,560,094)</u></u>

**CORPORATE GOVERNANCE**

The Board consists of two Directors. The Board takes overall responsibility for the company, including responsibility of identifying key risk areas, considering and monitoring investment decisions and significant financial matters, and reviewing the performance of the management business plans and budgets.

The Board is also responsible for ensuring that a comprehensive system of internal controls and procedures is operative. It is also responsible for compliance with sound corporate governance principles.

The Board regularly met during the year. The Board delegates the day to day management of the business to the managing director. Senior management team are 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 the various business units.

The company is committed to the principles of effective corporate governance. The directors recognize the importance of integrity, transparency and accountability.

**DIVIDENDS**

The directors do not recommend the declaration of a dividend for the year 2019 (2018: Nil).

**DIRECTORS**

The names of the directors who held office during the year and to the date of this report are shown on page 1.

**SOLVENCY**

The company's state of affairs at 31 December 2019 is set out on page 11 of these financial statements.

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on an ongoing concern basis. The Board of Directors has reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

**CAPITAL STRUCTURE AND SHAREHOLDING**

The Company's capital structure as of year end is shown below:

**Authorised share capital:**

8,000,000 Ordinary shares of Tshs 1,000 each (2018: 8,000,000 Ordinary shares of Tshs 1,000 each)

<b>2019</b> <b>Tshs'000</b>	<b>2018</b> <b>Tshs'000</b>
<u>8,000,000</u>	<u>8,000,000</u>

**Issued and fully paid**

4,723,640 Ordinary shares of Tshs 1,000 each (2018: 4,723,640 Ordinary shares of Tshs 1,000 each)

<u>4,723,640</u>	<u>4,723,640</u>
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**REPORT OF THE DIRECTORS (CONTINUED)**

**CAPITAL STRUCTURE AND SHAREHOLDING (CONTINUED)**

**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. This was used for share application in 2019 and has been capitalized in 2020.

The shares of the company are held as follows:

	2019		2018	
	No. of shares	Tshs'000	No. of shares	Tshs'000
P P Holdings Limited	4,723,635	4,723,635	4,723,635	4,723,635
Jonathan Aubrey Lane	1	1	1	1
Farhat Jonathan Lane	1	1	1	1
Ashvin B Mavani	1	1	1	1
Suraj Kantilal P Devani**	1	1	1	1
Taranjit Singh Saini**	1	1	1	1
	<u>4,723,640</u>	<u>4,723,640</u>	<u>4,723,640</u>	<u>4,723,640</u>

\*\* These are also Directors in the company

**MANAGEMENT TEAM**

The management of the company is under the Managing Director and is organised in the following departments headed by Managers.

- ▢ Finance and administration
- ▢ Operations
- ▢ Sales and marketing

**EMPLOYEES' WELFARE**

**Management and employees' relationship**

There were continued good relationship between employees and management during the year and there were no unresolved complaints. A healthy relationship continues to exist between management and trade unions.

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

**Training facilities**

The company provides on-the-job training to all its employees in order to improve their technical skills and effectiveness. Where necessary, employees are also considered for external training courses that upgrade skills and enhance development.

**Health and safety**

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

**REPORT OF THE DIRECTORS (CONTINUED)**

**EMPLOYEES' WELFARE (CONTINUED)**

**Persons with disabilities**

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

**Employees Benefit Plan**

The company pays contributions to the statutory pension fund which is a mandatory pension plan.

Number of persons employed by the company at the year end were 836 (2018:720)

**ENVIRONMENTAL CONTROL PROGRAM**

The company is committed to conducting its business in a manner that protects the environment and it is registered with OSHA (Occupational Safety and Healthy Administration) which requires the Company to be committed to developing and establishing a strong health, safety and environment culture, and to provide training, awareness programs and resources necessary to support this commitment. Guiding principles for effective health, safety and environment are as follows;

- Nothing is more important than protecting human health and safety;
- All incidents are preventable;
- Management is accountable for health, safety and environment (HSE) performance and will show active leadership in the same;
- Working safely in an environmentally responsible manner is a condition for employment; and
- Preventing incidents and managing environmental impacts are fundamental to good business.

**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 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 behavior towards all stakeholders.

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's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31 December 2019 and is of the opinion that they met the set criteria.

The Board is directly responsible for risk and internal control assessment as a separate audit committee is not considered necessary.

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**REPORT OF THE DIRECTORS (CONTINUED)**

**RELATED PARTY TRANSACTIONS**

Details of transactions with related parties are disclosed in Note 18 to these financial statements.

**POLITICAL AND CHARITABLE DONATION**

The company did not make any political donation during the year. Donation made to charitable organization during the year amounted to TZS 4.9 million (2018: TZS 3.7 million)

**SUBSEQUENT EVENTS**

The directors are not aware of any matters or circumstances arising since the end of the financial year to the date of this report, not dealt with in the annual financial statements through disclosure or adjustment, which would have a material negative effect on the financial results or operations of the company.

**INDEPENDENT AUDITOR**

PKF Associates were appointed to be Company's auditors on 10 September 2019. PKF Associates Tanzania have expressed their willingness to continue in office and are eligible for re-appointment. A resolution to re-appoint PKF Associates Tanzania, as auditor will be put to the Annual General Meeting.

**BY ORDER OF THE BOARD**



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Suraj Devani  
Director

26 June .....2020

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Tanzania Companies Act, 2002 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; that disclose, with reasonable accuracy, the financial position of the company and that enable them to prepare financial statements of the company that comply with International Financial Reporting Standards and the requirements of the Tanzania Companies Act, 2002. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by the Tanzania Companies Act, 2002. They also accept responsibility for:

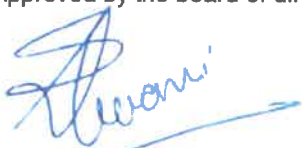
- i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii. Selecting and applying appropriate accounting policies;
- iii. Making accounting estimates and judgments that are reasonable in the circumstances;

The Directors are of the opinion that the financial statements give a true and fair view of the financial position of Pee Pee (Tanzania) Limited as at 31 December 2019 and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Tanzania Companies Act, 2002.

In preparing these financial statements the directors have assessed the company's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 26 June 2020 and signed on its behalf by:



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**Suraj Devani**  
**Director**

**DECLARATION OF THE HEAD OF FINANCE/ACCOUNTING OF PEE PEE (TANZANIA) LIMITED**

The National Board of Accountants and Auditors (NBAA) according to the powers 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 a true and fair view of the entity's financial position and performance in accordance with International Financial Reporting Standards (IFRS) and statutory financial reporting requirements.

Full legal responsibility for the preparation of financial statements rests with the Board of Directors as stated under the Directors Responsibility statement on the previous page.

In regard thereof, I CRA Godlisten Eml being the Head of Finance/Accounting of Pee Pee (Tanzania) Limited hereby acknowledges my responsibility of ensuring that the company's financial statements for the year ended 31 December 2019 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements give a true and fair view position of Pee Pee (Tanzania) Limited as on that date and that they have been prepared based on properly maintained financial records.

Signed by: Eml

Position: Chartered Accountant

NBAA Membership No.: GA-6816

Date: 26 June 2020

**REPORT OF THE INDEPENDENT AUDITOR  
TO THE MEMBERS OF PEE PEE (TANZANIA) LIMITED**

**Opinion**

We have audited the financial statements of Pee Pee (Tanzania) Limited (the company), set out on pages 10 to 42 which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Tanzania 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 Auditor's Responsibilities section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other information**

The directors are responsible for the other information. The other information comprises the directors' report, statement of directors responsibility, declaration of head of finance and the schedule of expenditure but does not include the financial statements and our auditor's report thereon.

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

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

**Responsibilities of Directors for the Financial Statements**

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

**REPORT OF THE INDEPENDENT AUDITOR  
TO THE MEMBERS OF PEE PEE (TANZANIA) LIMITED (CONTINUED)****Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

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 director's use of the going concern basis of accounting and based on the audit evidence obtained ascertain, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

**Report on Other Matters Prescribed by the Tanzania Companies Act, 2002**

In our opinion the information given in the report of the directors on pages 2 to 6 is consistent with the financial statements.

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

- (i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
- (iii) the company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Date 26 June ..... 2020

**Certified Public Accountants Dar es Salaam**  
**CPA (Mustansir Gulamhussein), Practicing certificate No. 1810**  
**Signing partner responsible for the independent Audit**  
**PKF Associates Tanzania**  
**Ref: PKF/A/P026/067/20/mg**

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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	<b>Notes</b>	<b>2019 Tshs '000</b>	<b>2018 Tshs '000</b>
Revenue	2	33,033,581	32,494,388
Cost of sales		<u>(28,178,889)</u>	<u>(32,051,247)</u>
<b>Gross profit</b>		4,854,693	443,141
Other operating income	3	942,829	216,006
Selling and distribution expenses		(645,852)	(563,213)
Administrative expenses		(2,213,165)	(1,995,903)
Other operating expenses		(517,360)	(381,495)
Inventory obsolescence		(98,659)	(1,191,872)
Post harvest technology project		<u>(911,890)</u>	<u>(96,936)</u>
<b>Operating profit/(loss)</b>	4	1,410,596	(3,570,272)
Project related expenses		(527,406)	-
Finance costs	5	(917,157)	(1,041,529)
Forex exchange loss	5	<u>(141,166)</u>	<u>(381,495)</u>
<b>Loss before tax</b>		(175,132)	(4,993,296)
Tax (charge)/credit	6	<u>(360,783)</u>	<u>433,202</u>
<b>Loss for the year</b>		<u>(535,915)</u>	<u>(4,560,094)</u>
<b>Other comprehensive income:</b>			
Items that will not be reclassified subsequently to profit or loss			
- Fair value through other comprehensive income financial assets	11	<u>(1,859)</u>	<u>(24,177)</u>
<b>Total comprehensive income for the year</b>		<u><u>(537,774)</u></u>	<u><u>(4,584,271)</u></u>

The notes on pages 15 to 42 form an integral part of these financial statements.

Report of the independent auditor - page 9 and 10.

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**STATEMENT OF FINANCIAL POSITION**

	Notes	2019 Tshs '000	2018 Tshs '000
<b>EQUITY</b>			
Share capital	7	4,723,640	4,723,640
Share capital application		2,388,173	-
Capital reserve		-	88,638
Revaluation reserve		6,264,957	6,412,069
Fair value through other comprehensive income		15,575	17,434
Retained earnings		(5,215,748)	(4,826,945)
<b>Equity attributable to owners of the company</b>		<b>8,176,597</b>	<b>6,414,836</b>
<b>Non-current liabilities</b>			
Borrowings	8	5,576,807	1,853,476
Deferred tax liability	9	2,508,687	2,506,568
		8,085,494	4,360,044
		16,262,091	10,774,880
<b>REPRESENTED BY</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	18,556,045	19,298,753
Investment securities	12	29,300	31,159
		18,585,345	19,329,912
<b>Current assets</b>			
Inventories	13	9,478,978	7,040,323
Trade and other receivables	14	6,673,035	4,705,882
Cash and cash equivalents	15	260,196	65,628
Tax recoverable		-	63,673
		16,412,209	11,875,506
<b>Current liabilities</b>			
Borrowings	8	10,591,563	11,094,612
Trade and other payables	16	7,950,714	9,089,437
Deferred income	10	28,019	246,489
Tax payable		165,168	-
		18,735,464	20,430,538
<b>Net current assets/(liability)</b>		<b>(2,323,254)</b>	<b>(8,555,032)</b>
		16,262,091	10,774,880

The financial statements on pages 11 to 42 were approved and authorized for issue by the Board of Directors on 26 June 2020 and were signed on its behalf by:

  
 Suraj Devani  
 Director

The notes on pages 15 to 42 form an integral part of these financial statements.

Report of the independent auditor - page 9 and 10.

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**STATEMENT OF CHANGES IN EQUITY**

	Share capital Tshs '000	Non distributable reserve Tshs '000	Revaluation reserve Tshs '000	Available for sale reserve Tshs '000	Retained earnings Tshs '000	Share capital application money Tshs '000	Total Tshs '000
<b>Year ended 31 December 2019</b>							
At start of year	4,723,640	88,638	6,412,069	17,434	(4,826,945)	-	6,414,836
Total comprehensive income for the year							
- Loss for the year	-	-	-	(1,859)	(535,915)	-	(535,915)
- Other comprehensive loss	-	-	-	(1,859)	-	-	(1,859)
Total comprehensive loss for the year	-	-	-	(1,859)	(535,915)	-	(537,774)
Non distributable reserve		(88,638)				88,638	-
Share capital application money*						2,299,535	2,299,535
Transfer of excess depreciation on revaluation			(147,112)		147,112		-
At end of year	4,723,640	-	6,264,957	15,575	(5,215,748)	2,388,173	8,176,597
<b>Year ended 31 December 2018</b>							
At start of year	4,723,640	88,638	6,559,181	41,611	(413,963)	-	10,999,107
Total comprehensive loss for the year							
- Loss for the year	-	-	-	(24,177)	(4,560,094)	-	(4,560,094)
- Other comprehensive loss	-	-	-	(24,177)	-	-	(24,177)
Total comprehensive loss for the year	-	-	-	(24,177)	(4,560,094)	-	(4,584,271)
Transfer of excess depreciation on revaluation			(147,112)		147,112		-
At end of year	4,723,640	88,638	6,412,069	17,434	(4,826,945)	-	6,414,836

The notes on pages 15 to 42 form an integral part of these financial statements.

Report of the independent auditor - page 9 and 10.

\*The share capital application moneys relate to amounts received from parent company for which the formality of issuance of new shares was in progress as of the time of sign off of these of financial statements.

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**STATEMENT OF CASH FLOWS**

	Notes	2019 Tshs '000	2018 Tshs '000
<b>Operating activities</b>			
Cash from operations	17	(3,967,459)	1,864,088
Tax paid		(129,823)	(102,394)
Net cash from/(used in) operating activities		(4,097,282)	1,761,694
<b>Investing activities</b>			
Cash paid for purchase of property, plant and equipment	11	(272,524)	(102,868)
Proceeds from disposal of property, plant and equipment		30,085	25,134
Net cash used in investing activities		(242,439)	(77,734)
<b>Financing activities</b>			
Share application money		2,299,535	-
Proceeds from long-term borrowings		5,205,041	2,793,441
Repayments of long-term borrowings		(1,503,408)	(1,449,500)
Movement in deferred grant income		28,019	246,489
Net cash (used in)/from financing activities		6,029,187	1,590,430
(Decrease)/increase in cash and cash equivalents		1,689,466	3,274,390
<b>Movement in cash and cash equivalents</b>			
At start of year		(3,121,374)	(6,395,764)
(Decrease)/increase in cash and cash equivalents		1,689,466	3,274,390
At end of year	15	(1,431,908)	(3,121,374)

The notes on pages 15 to 42 form an integral part of these financial statements.

Report of the independent auditor - page 9 and 10.

**NOTES**

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

These financial statements comply with the requirements of the Tanzania Companies Act, 2002. The Statement of profit or loss represent the profit and loss account referred to in the Act, whilst the statement of financial position represents the balance sheet referred to in the Act.

This is the first set of the company's financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 1 (a).

**a) Basis of preparation**

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Transfer between levels of the fair value hierarchy are recognised by the directors at the end of the reporting period during which the change occurred.

**Going concern**

The financial performance of the company is set out in the Director's report and in the statement of profit or loss and the other comprehensive income. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk management objectives and policies is set out in note 19.

Based on the financial performance and position of the company and the additional capital injections by Parent Company as in note 16, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

**New and amended standards adopted by the company**

All new and amended standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2018 have been adopted by the company. Of these, the following has had no effect on the company's financial statements.

**NOTES (CONTINUED)**

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

**a) Basis of preparation (continued)**

**New and amended standards adopted by the company (continued)**

**International Financial Reporting Standards 9 (IFRS 9): Financial Instruments**

IFRS 9 requires all financial assets to be measured at fair value on initial recognition and subsequently at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken. The amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For impairment of financial assets, IFRS 9 introduces an "expected credit loss" (ECL) model based on the concept of providing for expected losses at the inception of a contract; this will require judgment in quantifying the impact of forecast economic factors. For financial assets for which there has not been a significant increase in credit risk since initial recognition, the loss allowance should represent ECLs that would result from probable default events within 12 months from the reporting date (12-month ECLs). For financial assets for which there has been a significant increase in credit risk, the loss allowance should represent lifetime ECLs. A simplified approach is allowed for trade receivables and lease receivables, whereby lifetime ECLs can be recognised from inception.

The company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 April 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Company did not early adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. There were no adjustments to the carrying amounts of financial assets and liabilities at the date of transition.

Consequently, for notes and disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes and disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the company. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in note 1(a) (i).

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

a) Basis of preparation (continued)

New and amended standards adopted by the company (continued)

(IFRS 9): Financial Instruments (continued)

(i) Classification and measurement of financial instruments

	IAS 39		IFRS 9	
	Measurement category	Carrying amount Tshs'000	Measurement category	Carrying amount Tshs'000
<b>Financial assets</b>				
Cash and cash equivalents	Amortised cost	260,196	Amortised cost	260,196
Loans and advances	Amortised cost	6,673,035	Amortised cost	6,673,035
<b>Financial liabilities</b>				
Borrowings	Amortised cost	16,168,370	Amortised cost	16,168,370
Trade and other payables	Amortised cost	7,950,714	Amortised cost	7,950,714

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. For more detailed information regarding the new classification requirements of IFRS 9, refer to note 1(a) (i).

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

	IAS 39 Carrying amount 01-Jan-18 Tshs'000	Re- classification Tshs'000	Re- measurement Tshs'000	IFRS 9 carrying amount 01-Jan-18 Tshs'000
<b>Amortised cost:</b>				
<b>Cash and cash equivalents</b>				
Balance under IAS 39	65,628	-	-	65,628
Balance under IFRS 9	65,628	-	-	65,628
<b>Trade and other receivables</b>				
Balance under IAS 39	4,705,882	-	-	4,705,882
Remeasurement: ECL allowance	-	-	-	-
Balance under IFRS 9	4,705,882	-	-	4,705,882

(iii) Significant and material impacts

The impact of the 'classification and measurement' changes is not material to the company. The company did not have and equity instruments in the previous and current year. The total provision for trade and other debtors was not material.

**NOTES (CONTINUED)**

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

**a) Basis of preparation (continued)**

**New standards, amendments and interpretations issued but not effective (continued)**

**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.

Under IFRS 15, revenue from sale of goods is recognised when the customer obtains control of the goods. Revenue from sales of services is recognised over time provided the consumption of the service by the customer is simultaneous with the performance of the service by the company. The application of the standard, retrospectively, in the current year has not had a material impact on the financial position or financial performance of the company, and a prior period adjustment has, therefore, not been required.

**New standards, amendments and interpretations issued but not effective**

At the date of authorisation of these financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented:

- Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.
- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.
- Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.
- Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amortised cost classification.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' effective for annual periods beginning on or after 1 April 2019 clarifying that IFRS 9 is only applicable to investments to which the equity method is not applied.
- Amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' effective for annual periods beginning on or after 1 April 2019 in relation to remeasurement of previously held interests on a joint operation on obtaining control.
- IFRS 16 'Leases' (issued in January 2017) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

**NOTES (CONTINUED)**

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

**a) Basis of preparation (continued)**

**New standards, amendments and interpretations issued but not effective (continued)**

The directors expect that the future adoption of IFRS 16 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.

**b) Critical accounting estimates and judgement**

In the application of the accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**- Measurement of expected credit losses (ECL):**

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing companies of similar financial assets for the purposes of measuring ECL

The measurement of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD).

The ECL model applied for financial assets other than trade receivables and contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

**NOTES (CONTINUED)**

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

**b) Critical accounting estimates and judgement (continued)**

**- Measurement of expected credit losses (ECL):**

- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

**Assessment of significant increase in credit risk:** The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The Company uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions

For trade receivables, the company has applied the simplified model under IFRS 9 where lifetime expected credit loss allowance is recognised on the basis of a provisioning matrix.

**- Useful lives of property and equipment and intangible assets**

Management reviews the useful lives and residual values of the items of property and equipment on a regular basis. During the financial year, the Directors determined no significant changes in the useful lives and residual values.

**- Income taxes**

Critical estimates are made by the Directors in determining the provision for income taxes. 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. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

**c) Revenue recognition**

The company recognises revenue from sale of woven packaging. The company recognises revenue as and when it satisfies a performance obligation by transferring control of a product to a customer. The amount of revenue recognised is the amount the company expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties, such as Value Added Tax.

**i) Sale of finished products**

Sales of finished product are recognised upon delivery to, and acceptance by, the customer. Having accepted the goods, customers do not have the right to return them. There is no variable element to the contract price, and payment, less any deposit already paid, is typically due within 30 days of delivery.

**NOTES (CONTINUED)**

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

**d) Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Tanzania Shillings (the functional currency), at the rates ruling at the transaction dates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

**e) Property, plant and equipment**

All property, plant and equipment is initially recorded at cost and thereafter stated at historical less accumulated depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Leasehold land and buildings are subsequently shown at market value, based on periodic valuations less subsequent depreciation.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. Decreases that offset previous increases of the same asset are charged to other comprehensive income; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the retained earnings to revaluation reserve.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss in the financial year in which they are incurred.

Leasehold land is depreciated over the remaining period of the lease.

Depreciation on all other assets is calculated on the reducing balance basis method to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life using the following annual rates:

	<u>Year</u>
Buildings and leasehold improvements	50
Plant and machinery	15
Furniture and fittings	8
Motor vehicles	4

**NOTES (CONTINUED)**

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

**e) Property, plant and equipment (continued)**

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings in the statement of changes in equity.

**f) Impairment of non-financial assets and intangible assets other than goodwill**

At the end of each reporting period, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**g) Financial instruments**

Financial instruments are recognised when, and only when, the company becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale.

**- Financial assets**

The company classifies its financial assets into the following categories:

**i) Amortised cost;**

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

**NOTES (CONTINUED)**

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

**g) Financial instruments (continued)**

**- Financial assets (continued)**

**ii) Fair Value Through Other Comprehensive Income (FVTOCI):**

Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are classified and measured at value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

**iii) Fair Value Through Profit or Loss (FVTPL):**

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement.

Notwithstanding the above, the Company may:

- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it **at fair value through other comprehensive income**
- on initial recognition of a debt instrument, irrevocably designate it as classified and measured **at fair value through profit or loss** if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

**iii) Fair Value Through Profit or Loss (continued):**

At initial recognition of a financial asset, the Company determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The company reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Company has not identified a change in its business models.

**Derecognition/write off**

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the Company has transferred substantially all risks and rewards of ownership, or when the company has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Financial instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

**NOTES (CONTINUED)**

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

**g) Financial instruments (continued)**

**- Financial assets (continued)**

**Impairment**

The company recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI):

- Cash and cash equivalents
- Trade and other receivables
- Other financial assets

No impairment loss is recognised on investments measured at FVTPL.

The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the balance sheet date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

**- Financial liabilities**

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at **fair value through profit or loss**. The Company may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

All other financial liabilities are classified and measured at **amortised cost**.

**NOTES (CONTINUED)**

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

**g) Financial instruments (continued)**

**- Financial liabilities (continued)**

All financial liabilities are classified as non-current except those held for trading, those expected to be settled in the Company's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the company does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

**- Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**h) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out (FIFO) method. The cost of finished goods comprises direct costs but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

**i) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of bank overdrafts.

In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

**j) Share capital**

Ordinary shares are classified as equity.

**k) Dividends**

Proposed dividends are disclosed as a separate component of equity until declared.

Dividends are recognised as a liabilities in the period in which they are approved by the company's shareholders.

**l) Taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in equity, in which case, the tax is also recognised in equity.

**Current tax**

Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

**Deferred tax**

Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

**NOTES (CONTINUED)**

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

**m) Accounting for leases**

**The company as lessee**

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease. Lease incentives received are recognised as a liability and reduction of the rental expense on a straight line basis.

**n) Provisions**

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions for future operating losses are not recognised.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

The amount recognised as a provision is the best estimate of the present value of expenditures expected to be incurred to settle the obligation using a pre-tax rate that reflects the current market assessments of time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense in profit or loss under finance costs.

**o) Employee entitlements**

There is no estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

**p) Retirement benefit obligations**

The company and its employees contribute to the National Social Security Fund (NSSF) statutory defined contribution scheme. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

**q) Borrowing costs**

Borrowing costs that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset based either on actual cost on specific borrowings or, in the the case of general borrowings, based on a weighted average cost.

Capitalisation of borrowing costs ceases when all activities necessary to prepare the asset for its intended use or sale are complete. All other borrowing costs are recognised in profit or loss.

**r) Comparatives**

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

*Pee Pee (Tanzania) Limited*  
*Annual report and financial statements*  
*For the year ended 31 December 2019*

**NOTES (CONTINUED)**

	<b>2019</b>	<b>2018</b>
	<b>Tshs '000</b>	<b>Tshs '000</b>
<b>2. Revenue from contracts with customers</b>		
Recognised at a point in time:		
- Revenue from sale of goods - local	27,887,480	26,062,197
- Revenue from sale of goods - export	5,146,101	6,432,191
	<u>33,033,581</u>	<u>32,494,388</u>
<b>3. Other income</b>		
Profit on disposal of property, plant and equipment	30,939	-
Grant income	911,890	96,939
Miscellaneous income	-	119,070
	<u>942,829</u>	<u>216,009</u>
<b>4. Operating profit</b>		
The following items have been charged in arriving at the operating profit:		
Depreciation on property, plant and equipment (Note 10)	1,015,232	1,184,126
Auditor's remuneration	37,068	70,393
Directors' emoluments (Note 18)	521,418	406,037
Cost of material consumed	28,178,889	33,243,119
Short term leases	35,547	80,349
Trade receivables - impairment (Note 13)	256,866	59,441
Staff costs (Note 4.1)	4,262,380	3,520,538
	<u>4,262,380</u>	<u>3,520,538</u>
<b>4.1 Staff costs</b>		
Salaries and wages	932,846	466,351
Salaries and wages - Production	3,087,262	2,906,801
Social security fund contributions	94,145	46,710
Skills and development levy	54,334	27,730
Workers compensation fund	10,723	4,655
Staff medical expenses	8,764	12,129
Staff welfare expenses	74,306	56,162
	<u>4,262,380</u>	<u>3,520,538</u>
<b>5. Finance costs</b>		
Interest on borrowings - Note 8	681,071	668,490
Interest on overdraft (Note 8)	236,086	373,039
Realised forex loss	110,743	451,390
Unrealised forex loss/(gain)	30,423	(69,895)
	<u>1,058,323</u>	<u>1,041,529</u>
<b>6. Tax</b>		
Current tax - Alternative Minimum Tax (AMT)	165,168	129,823
Deferred tax credit (Note 9)	46,810	(563,025)
(Over)/under provision in prior years on:		
- prior year taxes after closure of tax audit 2012 - 2017	193,496	-
- deferred tax (Note 9)	(44,691)	-
<b>Tax charge/ (credit)</b>	<u>360,783</u>	<u>(433,202)</u>

NOTES (CONTINUED)

6. Tax (continued)	2019 Tshs '000	2018 Tshs '000
The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:		
Loss before tax	(175,132)	(4,993,296)
Tax calculated at a tax rate of 30% (2018: 30%)	(52,540)	(1,497,989)
Tax effect of:		
- expenses not deductible for tax purpose	99,350	380,416
- Under/(over) provision in prior year	(44,691)	554,548
- Tax effect on AMT	165,168	129,823
<b>Tax charge</b>	<u>167,287</u>	<u>(433,202)</u>
Effective rate of tax	<u>-96%</u>	<u>9%</u>

7. Share capital

**Authorised:**

8,000,000 Ordinary shares of Tshs 1,000 each (2018: 8,000,000 Ordinary shares of Tshs 1,000 each)

8,000,000	8,000,000
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**Issued and fully paid:**

4,505,419 Ordinary shares of Tshs 1,000 each (2018: 4,505,419 Ordinary shares of Tshs 1,000 each)

4,723,640	4,723,640
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**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. This was used for share application in 2019 and has been capitalized in 2020.

**Revaluation reserve:**

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

8. Borrowings

The borrowings are made up as follows:

Non Current	2019 Tshs '000	2018 Tshs '000
DTB Tanzania Limited - Term loan	371,766	1,853,476
Loan from related parties - (PPHL-Loan) (Note 18 (ii))	5,205,041	-
	<u>5,576,807</u>	<u>1,853,476</u>

**NOTES (CONTINUED)**

**8. Borrowings (Continued)**

<b>Current</b>		
Bank overdraft (Note 14)	1,692,104	3,187,002
Wind Moller & Holscher	-	265,667
DTB Tanzania Limited - Term loan	1,487,154	1,482,800
DTB Port Impost Loan	7,412,304	6,159,143
	<u>10,591,563</u>	<u>11,094,612</u>
<b>Total borrowings</b>	<u><u>16,168,370</u></u>	<u><u>12,948,088</u></u>
<b>Reconciliation of liabilities arising from financing activities excluding bank overdraft</b>		
At start of year	9,761,086	8,417,145
Interest charged to profit or loss	681,071	668,490
Foreign exchange loss	(2,148)	(69,752)
Cash flows:		
- Operating activities (interest paid)	(681,071)	(668,490)
- Proceeds from long-term borrowings	5,205,041	2,863,193
- Repayments of long-term borrowings	<u>(1,503,408)</u>	<u>(1,449,500)</u>
At end of year	<u><u>13,460,571</u></u>	<u><u>9,761,086</u></u>

The carrying amounts of the company's borrowings are denominated in the following currencies:

US Dollar	<u>16,168,370</u>	<u>12,948,088</u>
	<u><u>16,168,370</u></u>	<u><u>12,948,088</u></u>

The DTB borrowings are secured by the following:

- i) First legal and continuous mortgage over lease hold property vide; Tittle No. 12785 - LRM, L.O No. 104676, Plot No. 2, Kange Heavy Industrial Area, Tanga City registered in the name of Pee Pee Tanzania Limited, valued by H & R Consultants Limited in February 2017 and revised in December
- ii) First legal and continuous mortgage over lease hold property vide; Tittle No.19561 - LRM, L.O No. 170872, Plot No. 3, Kange Heavy Industrial Area, Tanga City registered in the name of Pee Pee Tanzania Limited, valued by H & R Consultants Limited in February 2017.
- iii) First legal and continuous mortgage over lease hold property vide; Tittle No.19560 - LRM, L.O No. 170873, Plot No. 4, Kange Heavy Industrial Area, Tanga City registered in the name of Pee Pee Tanzania Limited, valued by H & R Consultants Limited in February 2017.
  - *All the properties mentioned above have a total market value of Tsh 12,759,000,000.*
- iv) Undertaking to Mortgage Plot No. 1 Kange Area Tanga City.
- v) Fixed and floating debenture charge over all the current and future assets of the Company with a Book value of Tsh 21,535,265,000.

**NOTES (CONTINUED)**

**8. Borrowings (Continued)**

	<b>2019</b> <b>Tshs '000</b>	<b>2018</b> <b>Tshs '000</b>
Repayment		
6 months or less	7,412,304	6,159,143
6 - 12 months	3,179,258	4,669,802
1 - 5 years	2,661,984	1,853,476
Over 5 years	2,914,823	-
	<u>16,168,370</u>	<u>12,682,421</u>

In the opinion of the directors, the carrying amounts of borrowings approximate to their fair value

The carrying amounts of the company's borrowings are denominated in the USD currency

	<b>2019</b> <b>Tshs'000</b>	<b>2018</b> <b>Tshs'000</b>
US Dollar	<u>16,168,370</u>	<u>12,948,088</u>

Undrawn facilities as at the reporting date were as follows:

Bank overdraft - DTB	2,197,377	6,398
Bank borrowings - DTB Post Import Loan	-	-
PP Holdings Limited	<u>3,534,852</u>	<u>-</u>
	<u>5,732,229</u>	<u>6,398</u>

**9. Deferred tax**

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a tax rate of 30% (2018: 30%). The movement on the deferred tax account is as follows:

	<b>2019</b> <b>Tshs '000</b>	<b>2018</b> <b>Tshs '000</b>
At start of year	2,506,568	3,069,593
Credit to profit or loss (Note 6)	46,810	(563,025)
Prior year over provision in deferred tax (Note 6)	<u>(44,691)</u>	<u>-</u>
At end of year	<u>2,508,687</u>	<u>2,506,568</u>

**NOTES (CONTINUED)**

**9. Deferred tax (continued)**

Deferred tax (assets)/liabilities, deferred tax charge/(credit) in profit or loss are attributable to the following items:

	At start of year	Charged to profit or loss	Charge to equity	At end of year
Year ended 2019	Tshs '000	Tshs '000	Tshs '000	Tshs '000
<b>Deferred tax liabilities</b>				
Property, plant and equipment				
- accelerated capital allowance	4,455,441	(105,788)	-	4,349,653
Unrealised exchange differences	-	-	-	-
Provisions	-	(59,046)	-	(59,046)
Tax losses carried forward	(1,948,873)	211,644	-	(1,737,229)
<b>Net deferred tax liabilities</b>	<b>2,506,568</b>	<b>46,810</b>	<b>-</b>	<b>2,553,378</b>
<b>Year ended 2018</b>				
<b>Deferred tax liabilities</b>				
Property, plant and equipment				
- accelerated capital allowance	4,511,665	(56,224)	-	4,455,441
Provisions	(187,412)	187,412	-	-
Tax losses carried forward	(1,254,660)	(694,213)	-	(1,948,873)
<b>Net deferred tax liabilities</b>	<b>3,069,593</b>	<b>(563,025)</b>	<b>-</b>	<b>2,506,568</b>
<b>10. Deferred income</b>				
Opening balance			246,489	
Receipts for the year			693,420	343,425
Grant income released to the statement of profit or loss			(911,890)	(96,936)
<b>Balance as at 31 December</b>			<b>28,019</b>	<b>246,489</b>

PPTL entered a subcontract with donor such as RUDI and BRITEN and Purdue university 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. Under the agreement, amounts incurred for the advertisement and awareness of post harvest equipment usage of purdue improved crop storage bags, are released to the profit or loss account.

**NOTES (CONTINUED)**

**11 Property, plant and equipment**

**Year ended 31 December 2019**

	Land and buildings	Plant and machinery	Motor vehicles	Furniture, fittings & equipment	Capital work in progress	Total
	Tshs '000	Tshs '000	Tshs '000	Tshs '000		Tshs '000
<b>Cost or valuation</b>						
At start of year	12,816,227	13,922,253	272,977	553,990	-	27,565,447
Additions	-	142,581	103,680	9,364	16,900	272,524
Disposals	-	-	(108,632)	-	-	(108,632)
At end of year	12,816,227	14,064,834	268,024	563,354	16,900	27,729,339
<b>Depreciation</b>						
At start of year	510,397	7,009,385	264,743	482,169	-	8,266,694
Charge for the year	256,325	731,692	12,084	15,133	-	1,015,232
Disposals	-	-	(108,632)	-	-	(108,632)
At end of year	766,722	7,741,077	168,194	497,302	-	9,173,294
<b>Net book value</b>	<b>12,049,505</b>	<b>6,323,757</b>	<b>99,830</b>	<b>66,052</b>	<b>16,900</b>	<b>18,556,045</b>

**Year ended 31 December 2018**

At start of year	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 end of year	12,816,227	13,922,253	272,977	553,990	-	27,565,447
<b>Depreciation</b>						
At start of year	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
Disposals	-	(21,805)	(5,000)	-	-	(26,805)
At end of year	510,397	7,009,385	264,743	482,169	-	8,266,694
<b>Net book value</b>	<b>12,305,830</b>	<b>6,912,868</b>	<b>8,234</b>	<b>71,821</b>	<b>-</b>	<b>19,298,753</b>

The fixed assets have been pledged as security against borrowings as disclosed in Note 8.

Lease hold land and buildings were professionally valued as at 31 December 2016 by H&R Consultants Limited, independent registered valuers on the basis of open market value for lease hold land and buildings. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to other comprehensive income.

In determining the valuations for land and buildings, the valuer refers to current market conditions including recent sales transactions of similar properties - assuming the highest and best use of the properties.

The fair valuation of property, plant and equipment is considered to represent a level 2 valuation based on significant non-observable inputs being the location and condition of the assets and replacement costs for plant & machinery. Management does not expect there to be a material sensitivity to the fair values arising from the non-observable inputs.

**NOTES (CONTINUED)**

**12. Investment shares held at 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 Tsh 300 per share. This investment has been subsequently revalued at the year end market price of Tsh 600 per share (2018: Tsh 640), with the revaluation loss of Tsh 1.78 million (2018: revaluation loss of Tsh 24.9 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 (TPCCL) 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 Tsh 1,285 per share (2018: Tsh 2,060), with the revaluation gain of Tsh 0.077 million (2018: revaluation loss of Tsh 0.8 million) posted to the available for sale reserve.

	<b>2019</b>	<b>2018</b>
	<b>Tshs '000</b>	<b>Tshs '000</b>
At start of the year	31,159	55,336
Fair value (loss)/gain for the year	<u>(1,859)</u>	<u>(24,177)</u>
At end of the year	<u>29,300</u>	<u>31,159</u>

**13. Inventories**

	<b>2019</b>	<b>2018</b>
	<b>Tshs '000</b>	<b>Tshs '000</b>
Finished goods	1,381,849	1,865,332
Work in progress	1,450,001	1,283,891
Raw material	3,266,641	1,305,125
Consumables	135,453	135,333
Goods in transit	2,271,548	1,403,664
Spares	1,072,145	2,238,850
Less: stock impairment	<u>(98,659)</u>	<u>(1,191,872)</u>
	<u>9,478,978</u>	<u>7,040,323</u>

Inventories have been reduced by Tsh 98,659 (2018: Tsh 1,191,872) as a result of inventory obsolescence. The value reflects spares and of old machines purchased in FY 1996-2015. These items have a potential for recovery but management decided to be prudent and carry these items at zero value.

**14. Trade and other receivables**

	<b>2019</b>	<b>2018</b>
	<b>Tshs '000</b>	<b>Tshs '000</b>
Trade receivables	3,518,205	4,530,678
Other receivables	530,592	8,824
Advance payment to suppliers	1,837,466	-
Receivables from related parties (Note 18 (ii))	893,505	9,969
Less: provision for expected credit losses	<u>(316,770)</u>	<u>(59,949)</u>
Net trade and other receivables	6,462,998	4,489,522
Prepayments	<u>210,037</u>	<u>216,360</u>
	<u>6,673,035</u>	<u>4,705,882</u>

NOTES (CONTINUED)

Trade and other receivables (continued)

	2019			2018		
	Gross Amount Tshs '000	ECL Allowance	Carrying Amount	Gross Amount	Loss Provision	Carrying Amount
Trade receivables	3,518,205	(316,770)	3,201,435	4,530,678	(59,949)	4,470,729
Other receivables	530,592	-	530,592	8,824	-	8,824
Related parties	893,505	-	893,505	9,969	-	9,969
	<u>4,942,302</u>	<u>(316,770)</u>	<u>4,625,532</u>	<u>4,549,471</u>	<u>(59,949)</u>	<u>4,489,522</u>

In the opinion of the directors, the carrying amounts of trade and other receivables approximate to their fair value.

	2019 Tshs '000	2018 Tshs '000
The carrying amounts of the company's trade and other receivables are denominated in the following currencies:		
Tanzania Shillings	5,317,201	3,893,686
US Dollar	1,145,797	595,836
	<u>6,462,998</u>	<u>4,489,522</u>

15. Cash and cash equivalents

	Tshs '000	Tshs '000
Cash in hand	5,209	655
Bank balance	254,987	64,973
	<u>260,196</u>	<u>65,628</u>

For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the above stated amounts.

Cash and bank balances	260,196	65,628
Bank overdraft (Note 8)	(1,692,104)	(3,187,002)
	<u>(1,431,908)</u>	<u>(3,121,374)</u>

The company's cash and bank balances are held with a major Tanzanian financial institution and, insofar as the directors are able to measure any credit risk to these assets, it is deemed to be limited

The carrying amounts of the company's cash and cash equivalents are denominated in the following currencies:

	Tshs '000	Tshs '000
Tanzania Shilling	252,373	64,312
US Dollar	2,260	8
Euro	5,562	1,308
	<u>260,196</u>	<u>65,628</u>

**NOTES (CONTINUED)**

**16. Trade and other payables**

Trade payables	5,922,924	7,485,742
Accruals	618,608	910,887
Other payables	1,374,800	692,808
Payable to related parties (Note 18 (iii))	34,382	-
	<u>7,950,714</u>	<u>9,089,437</u>

In the opinion of the directors, the carrying amounts of trade and other payables approximate to their fair values

The carrying amounts of the company's trade and other payables are denominated in the following currencies:

	<b>2019</b>	<b>2018</b>
	<b>Tshs '000</b>	<b>Tshs '000</b>
Tanzania Shilling	5,724,797	4,643,963
US Dollar	2,209,906	4,445,474
Euro	16,011	-
	<u>7,950,714</u>	<u>9,089,437</u>

The maturity analysis of the trade and other payables is as follows:

	<b>0 to 1 month</b>	<b>2 to 3 months</b>	<b>4 to 12 months</b>	<b>Total</b>
<b>Year ended 31 December 2019</b>	<b>Tshs '000</b>	<b>Tshs '000</b>	<b>Tshs '000</b>	<b>Tshs '000</b>
Trade payables	-	5,922,924	-	5,922,924
Accruals	618,608	-	-	618,608
Other payables	1,374,800	-	-	1,374,800
	<u>1,993,408</u>	<u>5,922,924</u>	<u>-</u>	<u>7,916,332</u>
<b>Year ended 31 December 2018</b>				
Trade payables	-	7,485,742	-	7,485,742
Accruals	910,887	-	-	910,887
Other payables	692,808	-	-	692,808
	<u>1,603,695</u>	<u>7,485,742</u>	<u>-</u>	<u>9,089,437</u>

**NOTES (CONTINUED)**

<b>17. Cash from operations</b>	<b>2019</b>	<b>2018</b>
	<b>Tshs '000</b>	<b>Tshs '000</b>
Reconciliation of the profit before tax to cash from operations:		
Loss before tax	(175,132)	(4,993,296)
<b>Adjustments for:</b>		
Depreciation on property, plant and equipment (Note 11)	1,015,232	1,184,126
Loss/(gain) on disposal of property, plant and equipment	(30,085)	17,281
Changes in working capital:		
- inventories	(2,438,655)	3,977,904
- trade and other receivables	(1,200,096)	2,219,602
- trade and other payables	(1,138,723)	(541,529)
Cash from operations	<u>(3,967,459)</u>	<u>1,864,088</u>

**18. Related party transactions and balances**

The ultimate holding company is PP Holdings Limited, a company incorporated in the Isle of Man under registration number 066537C. The Company made payments on behalf of PP Holding 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 Tsh 71.9 million (2018: Tsh 9.97 million)

The following transactions were carried out with related parties:

	<b>2019</b>	<b>2018</b>
	<b>Tshs '000</b>	<b>Tshs '000</b>
<b>i) Directors' remuneration</b>		
- Salaries and other employment benefits	<u>521,418</u>	<u>406,037</u>
<b>ii) Receivable from related parties (Note 13)</b>		
PP Holdings Limited	71,906	9,969
Pics (ESA) Tanzania Limited	165,592	-
Pics (ESA) Limited	454,191	-
Tiptoe Transporters	201,816	-
	<u>893,505</u>	<u>9,969</u>
<b>iii) Payable to related parties (Note 15)</b>		
Sinza Freight and Logistics Limited	<u>34,382</u>	<u>-</u>
<b>iv) Loan from holding Company - PP Holdings Limited</b>		
Pee Pee Holding Limited	<u>5,205,041</u>	<u>-</u>

As per the loan agreement letter, PP Holdings Limited and Pee Pee (Tanzania) Limited dated 28 August 2019, PP Holdings Limited was to release USD 3,820,000. As of year end USD 2,275,000 had been released leaving a balance of USD 1,545,000.

**19. Risk management objectives and policies**

**Financial risk management**

The company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk and liquidity risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by the management under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, credit risk, and non derivative financial instruments, and investment of excess liquidity.

**(a) Market risk**

*- Foreign exchange risk*

The company is exposed to foreign exchange risk arising primarily with respect to the US Dollar. The risk arises from future transactions, assets and liabilities in the statement of financial position date.

The table below summarises the effect of post-tax profit had the Tanzanian Shillings weakened by 10% against the US Dollar, with all other variables held constant. If the Tanzanian Shilling strengthened against the US Dollar, the effect would have been the opposite.

	<b>2019</b>	<b>2018</b>
	<b>Tshs'000</b>	<b>Tshs'000</b>
Effect on profit (decrease)	<u>(1,722,692)</u>	<u>(1,679,642)</u>
Effect on equity components (decrease)	<u>(1,722,692)</u>	<u>(1,679,642)</u>

A 10% sensitivity rate is being used when reporting foreign risk internally to key management personnel and represents managements assessment of the reasonably possible change in foreign exchange rates.

*- Interest rate risk*

The company has no interest bearing assets and as a result its cash flows are substantially independent of changes in market interest rates.

The company's exposure to interest rate risk arises from current borrowings. Financial liabilities obtained at different rates expose the company to interest rate risk. Financial liabilities obtained at fixed rates expose the company to fair value interest rate risk, except where the instruments are carried at amortised costs The company maintains adequate ratios of borrowings when compared to total borrowings in fixed interest rates.

The table below summarises the effect on post-tax profit had interest rates been 1 percentage point higher, with all other variables held constant. If the interest rates were lower by 1 percentage point, the effect would have been the opposite.

	<b>2019</b>	<b>2018</b>
	<b>Tshs'000</b>	<b>Tshs'000</b>
Effect on profit (decrease)	<u>(161,684)</u>	<u>(129,481)</u>

**NOTES (CONTINUED)**

**19. Risk management objectives and policies (continued)**

**(b) Credit risk**

Credit risk arises from cash and cash equivalents, deposits with bank and as well as credit exposures to customers, including outstanding receivables.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

In assessing whether the credit risk on a financial asset has increased significantly, the company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For these purpose default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

If the company does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the company groups financial assets on the basis of shared credit risk characteristics, such as:

- type of instrument;
- industry in which the debtor operates; and
- nature of collateral.

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 include observable data about the the following events:

- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

**NOTES (CONTINUED)**

**19. Risk management objectives and policies (continued)**

**(b) Credit risk (continued)**

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date was as follows:

Basis for measurement of loss allowance	12-month expected credit losses Tshs'000	Lifetime expected credit losses (see note below)			Total Tshs'000
		a) Tshs'000	b) Tshs'000	c) Tshs'000	
<b>As at 31 December 2019</b>					
Trade receivables	-	-	-	3,518,205	3,518,205
Cash at bank	260,196	-	-	-	260,196
Gross carrying amount	260,196	-	-	3,518,205	3,778,401
Loss allowance	-	-	-	(316,770)	(316,770)
Exposure to credit risk	260,196	-	-	3,201,435	3,461,631
<b>As at 31 December 2018</b>					
Trade receivables	-	-	-	4,530,678	4,530,678
Other receivables	8,824	-	-	-	8,824
Cash at bank	65,628	-	-	-	65,628
Gross carrying amount	74,452	-	-	4,530,678	4,605,130
Loss allowance	-	-	-	-	-
Exposure to credit risk	74,452	-	-	4,530,678	4,605,130

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

- a) Financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;
- b) Financial assets that are credit impaired at the balance sheet date;
- c) Trade receivables, contract assets and lease receivables for which the loss allowance is always measured at an amount equal to lifetime expected credit losses, based, as a practical expedient, on provision matrices.

The age analysis of the trade receivables at the end of each year was as follows:

	Not past due Tshs'000	30 to 90 Tshs'000	Over 180 Tshs'000	Total Tshs'000
As at 31 December 2019		3,201,435	-	3,201,435
As at 31 December 2018		4,530,678	-	4,530,678

**NOTES (CONTINUED)**

**19. Risk management objectives and policies (continued)**

**(b) Credit risk (continued)**

The changes in the loss allowance during the year were as follows:

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses			Total
		a)	b)	c)	
As at 31 December 2019	Tshs'000	Tshs'000	Tshs'000	Tshs'000	Tshs'000
At start of year	-	-	-	-	-
Changes relating to assets					
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	-	-	-	316,770	316,770
Changes because of financial assets that were written off during the year	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>316,770</u>	<u>316,770</u>

**(c) Liquidity risk**

Cash flow forecasting is performed by the finance department of the company by monitoring the company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

Prudent liquidity risk management implies maintaining sufficient cash and bank balance, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

A disclosure of the undrawn facilities is as per Note 8. This is the company's liquidity reserve.

Notes 8 and 14 disclose the maturity analysis of borrowings and trade and other payables.

**NOTES (CONTINUED)**

**19. Risk management objectives and policies (continued)**

**(c) Liquidity risk (continued)**

The table below disclose the undiscounted maturity profile of the groups financial liabilities:

<b>Year ended 31 December 2019</b>	<b>Within 1 year Tshs'000</b>	<b>Between 1 - 5 years Tshs'000</b>	<b>Total Tshs'000</b>
Interest bearing liabilities			
- Borrowings	16,168,370	-	16,168,370
Non-interest bearing liabilities			
- Trade and other payables	7,950,714	-	7,950,714
	<u>24,119,084</u>	<u>-</u>	<u>24,119,084</u>
	<b>Within 1 year Tshs'000</b>	<b>Between 1 - 5 years Tshs'000</b>	<b>Total Tshs'000</b>
<b>Year ended 31 December 2018</b>			
Interest bearing liabilities			
- Borrowings	12,948,088	-	12,948,088
Non-interest bearing liabilities			
- Trade and other payables	9,089,437	-	9,089,437
	<u>22,037,525</u>	<u>-</u>	<u>22,037,525</u>

**20. Capital management**

The company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing products commensurate with the level of risk;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong asset base to support the development of business.
- to maintain an optimal capital structure to reduce the cost of capital.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders or adjust the amount of capital expenditure. Consistently with others in the industry, the company monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Capital comprises all components of equity (i.e. share capital, retained earnings).

This ratio is calculated as net debt : capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Capital comprises all components of equity (i.e. share capital, retained earnings, revaluation reserve and subordinated loans).

**NOTES (CONTINUED)**

**20. Capital management (Continued)**

The debt-to-capital ratios as at 31 December 2019 and 31 December 2018 were as follows:

	<b>2019</b> <b>Tshs '000</b>	<b>2018</b> <b>Tshs '000</b>
Total borrowings (Note 8)	16,168,370	12,948,088
Less: cash and cash equivalents (Note 15)	(260,196)	(65,628)
Net debt	<u>15,908,174</u>	<u>12,882,460</u>
Total equity	<u>8,176,597</u>	<u>6,414,836</u>
Gearing ratio	<u>194.56%</u>	<u>200.82%</u>

**21. Contingent liabilities**

The directors are not aware of any contingent liabilities against the company as at the date of this report.

**22. Events after the reporting period**

The directors confirm that there were no events subsequent to the year-end up to the date of this report that require either disclosure or adjustment in the financial statements.

**23. Incorporation**

Pee Pee (Tanzania) Limited is a private company limited by shares. It was registered in the United Republic of Tanzania through certificate of incorporation no 24636 on 26 January 1994 under the Tanzania Companies Act, 2002 .

**24. Presentation currency**

These financial statements are presented in Tanzania Shillings rounded off to the nearest thousand (Tshs.'000).

**25. Going concern**

On 1 February 2019 the parent Company formalised a shareholding agreement with AgriVie Fund-II 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 in a new Manufacturing unit. AgriVie 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 disbursement of USD 3,275,000 has been made to Pee Pee (Tanzania) Limited as of year end 2019 with further disbursement to follow as per the project plan.

As the result of the above and the company's operating performance, the directors have considered it appropriate to prepare these financial statements on the going concern basis.

**26. Commitments**

As of year end, the company had a Tsh 3,055,610,043 capital commitment balance in respect of a Lohia, Wind Moller Holscher and Golden Jason Machinery Industry Co. Limited. For which Tsh 1,810,187,336 out of total costs of Tsh 4,627,852,660 had been paid.