McLeod Russel Uganda Limited

Annual report and financial statements
for the year ended 31 December 2019

Index

Corporate Information

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES

Growing, processing and marketing tea

REGISTERED OFFICE

Mwenge Central Offices
Mwenge Estate,
Kyarusozi, Kyenjojo District,
PO Box 371
Fort Portal, Uganda

LEAD BANKERS

ABSA Bank of Uganda Limited
Plot 2/4, Hannington Road
PO Box 7101
Kampala, Uganda

Stanbic Bank Uganda Limited
17 Hannington Road
PO Box 7131
Kampala, Uganda

DFCU Bank Limited
Plot 26, Kyadondo Road, Nakasero
P.O. Box 70, Kampala, Uganda

COMPANY SECRETARY

Katende, Ssempebwa & Company Advocates
Radiant House
Plot 20, Kampala Road
PO Box 2344
Kampala, Uganda

INDEPENDENT AUDITORS

Grant Thornton
Certified Public Accountants
Lugogo House
Plot 42, Lugogo Bypass
PO Box 7158
Kampala, Uganda

PARENT COMPANY

Borelli Tea Holdings Limited incorporated in the United Kingdom

ULTIMATE PARENT COMPANY

McLeod Russel India Limited incorporated in India

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of McLeod Russel Uganda Limited ("the Company").

McLeod Russel Uganda Limited is a subsidiary of Borelli Tea Holdings Limited, incorporated in the United Kingdom. The Company's ultimate parent is McLeod Russel India Limited.

PRINCIPAL ACTIVITIES

The principle activities of the company continue to be growing, processing and marketing tea. There have been no material changes to the nature of the company's business from the prior year.

RESULTS

The financial statements have been prepared in accordance with International Financial Reporting Standards and in a manner required by the Companies Act, 2012. The accounting policies have been applied consistently to all the periods presented in the accompanying financial statements.

The Company's total comprehensive loss for the year ended 31 December 2019 is Shs 6,546 million (2018: total comprehensive income of Shs 8,846 million) has been reduced from (added to) the retained earnings.

Loss during the year is mainly on account of reduction in the selling price of made tea. The reduction in the selling price was partly compensated by increase in the production during the year.

During the year 31 December 2019, the Company produced and sold made tea of 19,942 tonnes and 19,989 tonnes (2018: 17,721 tonnes and 17,068 tonnes) respectively. The average selling price of made tea sold in 2019 is US Dollar 1.13 per kg (2018: US Dollar 1.59 per kg).

Full details of the financial position, results of operations and cash flows of the Company are set out in the accompanying financial statements.

BUSINESS OUTLOOK

During the year 2019-2020, your company installed an extra production line in Mwenge and Kiko tea estates. The withering capacity of these two estates was increased by 40 tons of green leaf per day with the installation of a Continuous Withering Machine (CWM) at each estate. This contributed to an increased production from 17,720 tons in 2018 to 19,942 tons in 2019, the highest recorded production by your company. Unfortunately, this was set off by a significant fall in tea prices in East Africa affecting all tea producers due to the excessive supply of tea due to good rainfall in the region during the year.

In view of the completion of the recommissioning of the Kisaru tea estate factory in early 2020 and the installation of a second line in Muzizi tea estate, we are confident that our production in 2020 will set a new record. We are optimistic that with the completion of our factory projects and improvement in field practices, we shall see a marked improvement in our quality and a resulting increase in sale price. However, the onset of COVID-19 pandemic has seen a negative impact on our production and plucking rounds due to the lock down and shortage of available labour. While we are taking necessary measures to keep our workers and staff safe, we remain optimistic that we shall be able to continue normal operations during this period.

SHARE CAPITAL

			2019	2018
Authorised			Number of shares	
Ordinary shares of Shs 5,000 each			8,400,000	8,400,000

Issued	**2019**	2018	2019	2018
Ordinary shares of Shs 5,000 each	**Shs '000'**	Shs '000'	Number of shares	
	4,630,540	41,630,540	926,108	8,326,108

Following an assessment of the Company's capital requirements, it was resolved to reduce the share capital by cancellation of 7,400,000 ordinary shares equivalent to Shs 37 billion which was adjusted against loan to the Parent Company, Borelli Tea Holdings Limited.

DIVIDENDS

During the year, the Company declared a dividend of Shs Nil (2018: Shs 8,000 million).

DIRECTORATE

The directors who held office during the year and to the date of this report were:

Director	Designation	Nationality
A Khaitan	Non-Executive Director	Indian
R Takru (Resigned on 21 February 2020)	Non-Executive Director	Indian
A Monem	Non-Executive Director	Indian
K Baheti	Non-Executive Director	Indian
D Sen	Non-Executive Director	British
Sim Katende	Non-Executive Director	Ugandan
P. Bhar	Non-Executive Director	Indian

EVENTS AFTER THE REPORTING PERIOD

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken by governments to contain the spread of the virus have triggered significant disruptions to business operations of the Company.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

AUDITOR

The Company's auditors, Grant Thornton Certified Public Accountants, being eligible, have expressed their willingness to continue in office in accordance with section 167 (2) of the Companies Act, 2012.

SECRETARY

The Company secretary is Katende, Ssempebwa & Company Advocates, whose registered office is at PO Box 2344, Kampala, Uganda.

KATENDE, SSEMPEBWA & COMPANY
Advocates, Solicitors & Legal Consultants
COMPANY SECRETARY
15 MAY 2020
Plot 20, Kampala Road
P.O. Box 2344, Kampala-Uganda
Tel: 233770/241478/233908 Fax: 256-414-257544

Katende, Ssempebwa & Company Advocates

Date: May 15, 2020
Place: Kampala, Uganda

Statement of Directors' responsibilities

The directors are required in terms of the Companies Act, 2012 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company
is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least next twelve months from the date of this statement.

The financial statements set out on pages 7 to 44, which have been prepared on the going concern basis, were approved by the Board on May 15, 2020 and were signed on its behalf by:

Director

Director

Date: May 15, 2020
Place: Kampala, Uganda.

Independent Auditor's Report

To the members of McLeod Russel Uganda Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of McLeod Russel Uganda Limited ("the Company"), as set out on pages 7 to 44. These financial statements comprise the statement of financial position as at 31 December 2019 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of McLeod Russel Uganda Limited as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Uganda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Uganda. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Without qualifying our opinion, we draw attention to **note 23** of the financial statements which indicate that the Company is in breach of certain bank covenants in relation to facilities taken from creditor banks. As per management representation the tea prices fluctuate and tea industry end up in losses during some years. Unfortunately, during the current year there was a significant fall in tea prices in East Africa affecting all tea producers in the region. The creditor banks are aware of this issue and the management is confident that the serviceability of the loans would not be affected.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012, 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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Anil Patel (Indian), Jasmine Shah (Indian), Nilesh Patel (Indian), Yusufu Musoke (Ugandan)

Independent Auditor's Report *(continued)*

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

The Companies Act, 2012 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- the statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner on the audit resulting in this independent auditor's report is CPA Yoonusu Musoke - P0453.

Yoonusu Musoke
P0453

Grant Thornton

Grant Thornton
Certified Public Accountants

Date: May 15, 2020.
Place: Kampala, Uganda

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2019 Shs '000	2018 Shs '000
Revenue	6	83,797,498	101,364,908
Cost of sales	7	(73,868,924)	(71,292,936)
Gross profit		9,928,574	30,071,972
Other income	8	2,161,350	521,473
Finance income	9	5,449,407	4,701,570
Finance costs	9	(3,972,788)	(1,360,083)
Distribution costs	10	(8,304,174)	(8,238,831)
Administrative expenses	11	(11,328,502)	(12,695,860)
Loss on fair valuation of green leaf	17	(218,403)	(125,881)
(Loss)/gain on fair valuation of derivative financial instruments	20	(2,444,589)	434,382
(Loss)/profit before income tax		(8,728,825)	13,308,742
Taxation	14	2,501,820	(4,131,505)
(Loss)/profit for the year		(6,227,005)	9,177,237
Other comprehensive income			
Re-measurements of retirement benefits obligation (net of tax)	25	(319,255)	(331,279)
Total comprehensive (loss)/income for the year		(6,546,260)	8,845,958

The notes on pages 11 to 44 form an integral part of the financial statements.

Statement of Financial Position

	Notes	2019 Shs '000	2018 Shs '000
Assets			
Property, plant, equipment and right-of-use assets	15	89,093,004	82,474,786
Prepaid operating lease rentals	16	-	1,499,869
Biological assets	17	393,072	611,374
Non - current assets		89,486,076	84,586,029
Current income tax	13	6,654,945	6,654,872
Inventories	18	31,272,301	36,002,296
Trade and other receivables	19	63,641,712	53,343,728
Derivative financial instruments	20	-	2,444,589
Cash in hand and at bank	21	942,607	500,249
Current assets		102,511,565	98,945,734
Total assets		191,997,641	183,531,763
Equity			
Share capital	22	4,630,540	41,630,540
Proposed dividend		-	8,000,000
Retained earnings		69,035,839	74,412,186
Total equity		73,666,379	124,042,726
Term loans	23	66,344,986	8,359,312
Deferred tax liability	24	7,120,491	9,759,134
Retirement benefits obligations	25	2,992,685	2,681,412
Non-current liabilities		76,458,162	20,799,858
Bank overdraft	21	17,927,252	26,420,711
Term loans	23	17,517,432	2,971,688
Trade and other payables	26	6,428,416	9,296,780
Current liabilities		41,873,100	38,689,179
Total equity and liabilities		191,997,641	183,531,763

The financial statements on pages 7 to 44 were approved for issue by the Board of Directors on May 15 2020 and signed on its behalf by:

Director **Director**

The notes on pages 11 to 44 form an integral part of the financial statements

Statement of changes in equity

	Notes	Share capital Shs'000	Proposed dividend Shs'000	Retained earnings Shs'000	Total equity Shs'000
Year ended 31 December 2018					
At start of year		41,630,540	-	73,566,228	115,196,768
Comprehensive income					
Profit for the year		-	-	9,177,237	9,177,237
Re-measurements of retirement benefit obligation (net of tax)	25	-	-	(331,279)	(331,279)
Total comprehensive income		-		8,845,958	8,845,958
Transactions with owners					
Interim and final dividend for 2018		-	8,000,000	(8,000,000)	-
Distribution to owners of Company			8,000,000	(8,000,000)	-
At end of year		41,630,540	8,000,000	74,412,186	124,042,726
Year ended 31 December 2019					
At start of year		41,630,540	8,000,000	74,412,186	124,042,726
Comprehensive income					
Loss for the year		-	-	(6,227,005)	(6,227,005)
On adoption of IFRS 16		-	-	1,169,913	1,169,913
Re-measurements of retirement benefit obligation (net of tax)	26	-	-	(319,255)	(319,255)
Total comprehensive income		-		(5,376,347)	(5,376,347)
Transactions with owners					
Dividends paid		-	(8,000,000)	-	(8,000,000)
Cancellation of shares		(37,000,000)	-	-	(37,000,000)
Distribution to owners of Company		(37,000,000)	(8,000,000)	-	(45,000,000)
At end of year		4,630,540	-	69,035,839	73,666,379

The notes on pages 11 to 44 form an integral part of the financial statements.

Statement of cash flows

	2019 Shs'000	2018 Shs'000
(Loss)/profit before income tax	**(8,728,825)**	13,308,742
Adjustments for:		
Interest income	**(4,455,639)**	(2,559,483)
Interest expense	**3,794,857**	1,168,169
Depreciation on property, plant and equipment	**4,964,997**	4,838,496
Loss/(gain) on disposal of property, plant and equipment	**273,488**	(11,205)
Amortisation of prepaid operating lease rentals	**-**	82,364
Increase or decrease in value of Biological assets	**218,303**	125,881
Fair value loss / (gain) on derivative financial instruments	**2,444,589**	(434,387)
Movement in retirement benefit obligations	**311,274**	447,517
Re-measurements of retirement benefits obligation	**(456,078)**	(473,755)
Changes in working capital:		
- Trade and other receivables	**(7,278,925)**	2,479,268
- Inventories	**4,729,995**	(10,143,827)
- Trade and other payables	**(2,868,360)**	1,250,270
Cash generated from operations	**(7,050,333)**	10,708,555
Interest paid	**(3,794,857)**	(1,168,169)
Income tax paid	**(73)**	(3,033,204)
Net cash generated from operating activities	**(10,845,263)**	6,507,182
Cash flows from investing activities		
Purchase of property, plant and equipment	**(9,189,920)**	(23,523,222)
Addition to prepaid operating lease	**-**	(57,017)
Proceeds from disposal of property, plant and equipment	**3,002**	141,834
Net loan given	**(40,019,059)**	(18,493,258)
Interest received	**4,455,639**	2,559,483
Net cash used in investing activities	**(44,750,338)**	(39,373,080)
Cash flows from financing activities		
Net movements in borrowings	**72,531,418**	7,698,920
Dividends paid	**(8,000,000)**	-
Net cash from financing activities	**64,531,418**	7,698,920
Net changes in cash and cash equivalents	**8,935,817**	(25,166,978)
Cash and cash equivalents at the start of the year	**(25,920,462)**	(753,484)
Cash and cash equivalents at the end of the year	**(16,984,645)**	(25,920,462)

The notes on pages 11 to 44 form an integral part of the financial statements

Notes to the financial statements

1 Corporate information

McLeod Russel Uganda Limited ("the Company") is a private limited company incorporated and domiciled in Uganda under the Companies Act, 2012. The Company was incorporated on November 23, 1995.

The Company is principally engaged in growing, processing and marketing of tea. The Company has six estates all situated in western Uganda.

The registered office of the Company is:
Kyamusoni, Kyenjojo District,
PO Box 371
Fort Portal, Uganda

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently throughout the current year and in all periods presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared on the going concern basis in accordance with International Financial Reporting Standards ("IFRSs"), in the manner required by the Companies Act, 2012.

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Uganda Shillings ("Shs"), which is the Company's functional currency. All financial information has been rounded to the nearest thousand, unless otherwise indicated.

These accounting policies have been applied consistently throughout the current period and in all periods presented.

(b) Significant Judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Key sources of estimation and uncertainty

IFRS 16 Leases

The significant judgements in the implementation were determining if a contract contained a lease, and the determination of whether the Company is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates in the respective economic environments.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

(b) Significant judgements and sources of estimation uncertainty *(continued)*

Key sources of estimation and uncertainty *(continued)*

Fair value estimation

Several assets and liabilities of the Company are either measured at fair value or disclosure is made of their fair values.

Observable market data is used as inputs to the extent that it is available. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs.

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Impairment of receivables

Receivables are recognised at fair value and subsequently measured at amortised cost. Allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the allowance is recognised in profit or loss.

Allowance for slow moving, damaged and obsolete inventory

The Company reviews its inventory to assess loss on account of obsolescence on a regular basis. In determining whether provision for obsolescence should be recorded in profit or loss, the Company makes judgements as to whether there is any observable data indicating that there is any future saleability of the product and the net realizable value for such product. Accordingly, provision for obsolescence is made where the net realizable value is less than cost based on best estimates by the management, ageing of inventories and historical movement of the inventory.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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.

The Company recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

(b) Significant judgements and sources of estimation uncertainty (Continued)

Key sources of estimation and uncertainty (Continued)

Useful lives of property, plant, equipment and right-of-use assets

Management assess the appropriateness of the useful lives and residual values of property, plant and equipment at the end of each reporting period.

When the estimated useful life or residual value of an asset differs from the previous estimates, the change is applied prospectively in determination of the depreciation charge.

Retirement benefit obligations

Critical assumptions are made by the actuary in determining the present value of retirement benefit obligations.

Provisions

Provisions are inherently based on assumptions and estimates using the best information available. Management makes estimates for the provisions, based on the historical data available and reassesses them at the end of every reporting period.

Critical judgments in applying accounting policies

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Impairment of non-financial assets

The Company reviews its non financial assets to assess the likelihood of impairment on an annual basis. In determining whether such assets are impaired, management make judgements as to whether there are any conditions that indicate potential impairment of such assets.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

(c) Revenue

Revenue arises mainly from the sale of agricultural commodities.

To determine whether to recognise revenue, the Company follows a 5-step process:

- Identifying a contract with the customer
- Identifying performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognising revenue when/ as performance obligation(s) are satisfied.

The Company often enters into transactions involving a range of the Company's products and services. In all cases, total transaction price is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price excludes any amounts collected on behalf of third parties.

The Company recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Sale of agricultural commodities

Revenue from the sale of agricultural commodities is recognised when or as the Company transfers control of the assets to the customer. Invoices for goods or services transferred are due upon receipt by the customer.

When such items are either customized or sold together with significant element of service, the goods and services represent a single combined performance obligation over which control is considered to transfer over time. This is because the combined product is unique to each customer (has no alternative use) and the Company has an enforceable right to payment for the work completed to date. Revenue for these performance obligations is recognised over time as the service is rendered based on estimation of work done. Revenue from the sale of goods is recognised upon passage of title to the customer, which generally coincides with their delivery and acceptance. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(d) Translation of foreign currencies

Transactions in foreign currencies during the period are converted into Uganda Shillings (functional currency), at rates ruling at the transaction dates. Assets and liabilities at the date of this report which are expressed in foreign currencies are translated into Uganda Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit or loss in the period in which they arise. A foreign currency transaction is recorded, on initial recognition in Uganda Shillings, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

(d) Translation of foreign currencies *(continued)*

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise.

(e) Employee benefits

Defined contribution plans

A majority of the Company's employees are eligible for annual leave and long service awards. The Company also contributes for its employees to the National Social Security Fund (NSSF). Provisions for annual leave and long service rewards and contributions to NSSF are charged to the income statement as incurred. Any differences between the charge to income and NSSF contributions payable is recorded in the balance sheet under other payables, while separate provisions are made for leave pay and long service awards.

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is categorized as an expense accrual.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested and are otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial year, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in profit or loss over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

(e) Employee benefits *(continued)*

Defined benefit plans *(continued)*

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the company is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In profit or loss, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

(f) Property, plant, equipment and right-of-use assets

An item of property, plant, equipment and right-of-use assets is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably.

Property, plant, equipment and right-of-use assets is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the Company. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Nature of asset	Useful life
Buildings	50 years
Bearer plant – tea bushes	50 years
Bearer plant – forests	20 to 33 years
Plant and machinery	5 to 20 years
Fixtures, fittings and equipment	3 to 5 years
Motor vehicles	4 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property, plant, equipment and right-of-use assets with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

(f) Property, plant, equipment and right-of-use assets *continued)*

An item of property, plant, equipment and right-of-use assets is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, equipment and right-of use assets, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

Land is not depreciated

(g) Leases

Policy applicable from January 1, 2019

- At the inception of the contract, the Company assesses whether a contract is, a lease. Contract is, or contains, a lease if the contract conveys the right to control the use of an identified assets for a period of time in exchange for consideration. To assess whether contract convey the right to control the use of an identified assets, the Company assesses whether;
- the contract involves the use of an identified assets – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either;
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

The policy is applied to contract entered into, or changed, on or after January 1, 2019

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Policy applicable prior to January 1, 2019

For contracts entered into before January 1, 2019, the Company determined whether the arrangement was or contains a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific assets or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

(g) Leases *(continued)*

Policy applicable prior to January 1, 2019 *(continued)*

- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

i) As a lessee

Policy applicable from January 1, 2019

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payment that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, includeing in-substance fixed payments;
- variable lease payments that depend on an index or a rate, intially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the group is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*
(g) Leases *(continued)*

Policy applicable prior to January 1, 2019

In the comparative period, as a lessee the Company classified lease that transfer substantially all of the risks and reward of ownership as finance leases. When this was the case, the leased assets where measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lease was required to make, excluding any contingent rent.

Subsequent, the assets were accounted for in accordance with the accounting policy applicable to that asset

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense. Over the term of the lease.

II) As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interest in the head lease and the sub lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use assets arising from the head lease not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease an operating lease.

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

The Company recognised lease payments received under operating lease as income on straight line basis over the lease term as part of "other income".

The accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16. However, when the Company was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

(h) Tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

(h) Tax *(continued)*

Deferred income tax is recognised, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

(i) Biological assets

Biological assets are measured on initial recognition and at each reporting date at fair value less estimated point-of-sale costs. Costs to sell include harvest and transport costs of green leaf to the factory.

Any gains arising on initial recognition of biological assets and from subsequent changes in fair value less estimated point-of-sale costs are recognised in profit or loss in the year in which they arise.

All costs of upkeep and maintenance of biological assets are recognised in profit or loss under cost of sales in the year in which they are incurred.

Standing crop (also referred to as green leaf) is a biological asset. The fair value of green leaf is estimated as the net present value of expected future cash flows which are based on:

- the price per kilogram of green leaf paid by the Company to green leaf out-growers; and
- estimated yield per hectare of the plantation based on the optimal harvest age of the plantation, assuming that green leaf matures on straight line basis.

A number of assumptions are used in the valuation of standing crop:

- all tea plants more than three years old are classified as bearer plants and are valued based on actual planting costs of tea plants per hectare, otherwise are considered under work in progress as it is not practical to make harvests out of them; and
- the average yield per hectare used is the weighted average of the yields for the subsequent period.

(j) Inventories

Inventories are measured at the lower of cost or net realisable value, with appropriate provision for old and slow-moving items.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

(k) Dividends

Dividends on ordinary shares are charged to equity in the year in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(l) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. Qualifying assets are those that necessarily take a substantial year of time to get ready for their intended use or sale. The net borrowing cost capitalised is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit and loss account in the year in which they are incurred.

(m) Share capital

Ordinary shares and preference shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds.

If the Company cancels its own equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) on those instruments are deducted from equity until the shares are cancelled. No gain or loss is recognised in profit or loss on the cancellation of the company's own equity instruments. Consideration paid shall be recognised directly in equity.

(n) Financial assets and liabilities

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price.

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities

The Company classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*
(n) Financial assets and liabilities *(continued)*

Measurement categories of financial assets and liabilities

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The Company classifies and measures its trading portfolio at FVPL and also may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.
Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

Level 1 financial instruments - Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Company has access to at the measurement date. The Company considers markets as active only if there are enough trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the reporting date.

Level 2 financial instruments - Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Company will classify the instruments as Level 3.

Level 3 financial instruments - Those that include one or more unobservable input that is significant to the measurement as whole.

The Company periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Company's financial instruments such as credit risk, own credit and/or funding costs. Therefore, the Company applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non collateralized financial instruments. The Company estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts on itself. The Company evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

Receivables and financial investments

The Company measures receivables and other financial investments at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*
(n) Financial assets and liabilities *(continued)*
Receivables and financial investments *(continued)*

- 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.

The details of these conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of the financial asset to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Reclassification of financial assets and liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*
(n) Financial assets and liabilities *(continued)*

Derecognition of financial assets and liabilities *(continued)*

The Company has transferred the financial asset if, and only if, either:
- The Company has transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.

- The Company cannot sell or pledge the original asset other than as security to the eventual recipients.
- The Company must remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:
- The Company has transferred substantially all the risks and rewards of the asset; or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and can exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Notes to the financial statements

2 **Summary of significant accounting policies** *(continued)*
(n) **Financial assets and liabilities** *(continued)*

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognised expected credit losses – the expected credit loss (ECL) model. Instruments within the scope of the requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Classification and measurement of financial liabilities

The Company's financial liabilities include borrowings and trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains and losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

(n) Financial assets and liabilities *(continued)*
Derivative financial instruments
The Company enters into a variety of derivative financial instruments in order to manage its exposure to foreign exchange risk and cash flow interest rate risk. Derivatives held by the company which are not in designated hedging relationships, include forward exchange contracts.

Recognition and measurement

Derivatives are recognised when the Company becomes a party to the contractual provisions of the instrument. They are measured, at initial recognition and subsequently, at fair value. Transaction costs are recognised in profit or loss

Non-hedging derivatives are classified as mandatorily at fair value through profit or loss

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

(o) Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

Notes to the financial statements

3 Changes in accounting policy

The financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

IFRS 16 Leases

Use of Judgements and estimates

The significant judgements in the implementation were determining if a contract contained a lease, and the determination of whether the Company is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates in the respective economic environments.

Transition to IFRS 16: Leases

On January 1, 2019, the Company adopted IFRS 16 Leases. IFRS 16 replaces IAS 17 Leases. The key accounting policies, significant judgements and significant estimates are detailed in **note 2(b)**. As of December 31, 2019, the right-of-use assets in respect of property leases and lease liability were USh 2,670 million and USh 2,670 million respectively. Right-of-use assets are presented in 'Property, plant equipment and right of use assets' on the Company's statement of financial position. Lease liabilities are presented in 'Other liabilities' on the statement of financial position. The total charge to the income statement for the year ended December 31, 2019 was USh nil. There was no interest expense recognized on lease liabilities and depreciation on right-of-use assets. The difference between right-of-use assets and lease liabilities recognised on January 1, 2019 is due existing prepayments and accruals recognized under IAS 17 as of December 31, 2018 being included in the measurement of the lease liabilities.

New accounting standards adopted by the Company

On January 1, 2019, the Company adopted IFRS 16 Leases. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The impact of IFRS 16 on the Company is primarily where the Company is a lessee in property lease contracts. The Company has elected to adopt the simplified approach of transition and has not restated comparative information. On January 1, 2019, the Company recognised a lease liability, being the remaining lease payments, including extensions options where renewal is reasonably certain, discounted using the Company's incremental borrowing rate at the date of initial application in the economic environment of the lease. The corresponding right-of-use asset recognised is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The statement of financial position increase as a result of recognition of the lease liability and right-of-use asset as of January 1, 2019 was approximately USh 2,670 million, with an adjustment of USh 1,170 million to retained earnings. The right-of-use asset is presented in 'Property, equipment and right-of-use' and the lease liability is presented in 'Other liabilities'.

Notes to the financial statements

3 Changes in accounting policy *(continued)*

New accounting standards adopted by the Company *(continued)*

The aggregate effect of the changes in accounting policy on the financial statements for the year ended December 31, 2019 as follows:

Impact (before tax) on statement of financial position on adoption of IFRS 16

	2019 (UShs '000')
Property, plant, equipment and right-of-use assets	
As at January 1, 2019	2,669,782
Depreciation on right-of-use assets during the year	-
	2,669,782

Notes to the financial statements

4 New standards and interpretations

(a) Standards and interpretations effective and adopted in the current year

In the current year, the Company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The effective date of the interpretation is for years beginning on or after January 1, 2019.

The company expects to adopt the interpretation for the first time in the 2019 financial statements.

The impact of the interpretation is not material.

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the Company are as follows:

Company as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.

Notes to the financial statements

4 **New standards and interpretations** *(continued)*

- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee remeasures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right of use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Company as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16.
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after January 1, 2019.

The Company has adopted the standard for the first time in the 2019 financial statements.

The impact of the standard is set out in **note 2** Changes in Accounting Policy.

Notes to the financial statements

5 Financial risk management objectives and policies

The Company activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate 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 its financial performance.

The financial risk management is carried out by the finance department under policies approved by the board of Directors.

Market risk

(i) Currency risk

The Company manages its foreign currency exchange exposure by entering into forward contracts with its bankers for sale in US Dollars, being the currency of its revenues from tea sales.

At 31 December 2019, if the currency had weakened/strengthened by 5% against the US dollar with all other variables held constant, post tax profit for the year and equity would have been Shs 1,500 million (2018: Shs 354 million) higher/lower, mainly as a result of US dollar denominated receivables, trade payables and bank balances.

(ii) Cash flow and interest rate risk

The Company's interest rate risk arises from long-term and current borrowings. Borrowings issued at variable rates expose the company to cash flow interest rate risk. The Company regularly monitors financing options available to ensure that optimum interest rates are obtained.

At 31 December 2019, if interest rates on US dollar denominated and Uganda Shilling borrowings had been 2% higher/lower with all other variables held constant, post-tax profit for the year would have been Shs 615 million and Shs 3 million (2018: Shs 200 million and Shs 5 million) respectively lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and Financial Institutions as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that counterparty will default on its contractual obligations resulting in Financial loss to the Company.

Credit risk is managed by the Finance & Accounts department under the directives of Board of Director.

The Company does not have any significant concentrations of credit risk. Most of the tea produced by the Company is sold through Mombasa auction, which is regulated by East Africa Tea Trade Association (a joint regulatory body comprising producers, buyers, brokers and warehouse keepers) and under its rules, the payment for teas sold is received in two weeks from the date of sale. Therefore, the credit risk arising from tea sales is minimal. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets

No other collateral is held in respect of the above assets. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated. None of the loans to related parties is past due.

None of the above assets are either past due or impaired except for the following amounts in trade and other receivables. The trade and other receivables which were past due but not impaired relates to number of independent customers for whom there is no history of default.

Notes to the financial statements

5 Financial risk management objectives and policies *(continued)*

	2019 Shs'000	2018 Shs'000
Past due but not impaired:		
by up to 30 days	-	25,855
- between 31 to 60 days	-	260,431
- between 61 to 180 days	8,357	103,143
- more than 180 days	101,725	292,125
	110,082	681,544
Receivables individually determined to be impaired.		
Carrying amount before impairment loss	176,488	176,488
Impairment loss	(176,488)	(176,488)
Net carrying amount	-	-

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance department maintains flexibility in funding by maintaining availability under committed credit lines.

Management performs cash flow forecasting and monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet its 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. The Company's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

The table below analyses the Company's financial liabilities in relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual cash flows

	Less than 1 year Shs'000'	Between 1 and 2 years Shs'000'	Between 2 and 5 years Shs'000'	Over 5 years Shs'000'
At 31 December 2019				
Term loan	21,979,136	21,068,510	45,888,050	10,533,940
Bank overdraft	17,927,252	-	-	-
Trade and other payables	6,399,731	-	-	-
	46,306,119	21,068,510	45,888,050	10,533,940
At 31 December 2018				
Term loan	3,539,493	3,341,847	6,098,754	-
Bank overdraft	26,420,711	-	-	-
Trade and other payables	9,296,781	-	-	-
	39,256,985	3,341,847	6,099,754	-

Capital risk management

The Company's objective when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt

Notes to the financial statements

5 Financial risk management objectives and policies *(continued)*

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus retained earnings. The gearing ratios at 31 December 2019 and 2018 were as follows:

	2019 Shs'000	2018 Shs'000
Total borrowings (note 23)	101,789,670	37,751,711
Less: cash at hand and in bank (note 21)	(919,922)	(500,249)
Net debt	100,847,063	37,251,462
Total capital	73,756,665	124,042,728
Gearing ratio	1.37	0.30

Fair value

The Company's financial assets and liabilities that are measured at fair value at 31 December 2019 are set out below. The derivative financial instruments, which relate to foreign exchange contracts, have been classified under level 2 for purposes of fair value

The fair value of the derivatives has been determined by using a valuation model that incorporates the quoted yields on government securities.

	2019 Shs'000	2018 Shs'000
Derivative financial asset	-	2,444,589

Notes to the financial statements

6 Revenue

	2019	2018
	Shs '000	Shs '000
Export auction	76,835,068	75,489,386
Export direct sales	5,955,088	25,214,833
Local sales	1,007,342	660,589
	83,797,498	101,364,808

All sales revenue is derived from the sale of made tea. The quantity of made tea sold during the year was 19,984 tonnes (2018: 27,068 tonnes).

7 Cost of sale

	2019	2018
Purchase of green leaf	18,724,323	19,980,937
Field expenses	7,136,206	6,516,493
Harvesting and collection	4,164,784	4,396,572
Power and fuel	9,528,077	9,579,671
Repair and maintenance	3,478,818	3,102,821
Inter estate leaf transport	25,180	-
Salary, wages and other expenses (Note 12)	17,310,946	17,897,972
Packing materials	1,276,723	1,401,551
Depreciation	4,561,258	4,513,032
Changes in inventories of finished goods	2,594,601	(3,107,447)
Other expenses	6,068,008	7,672,034
	73,868,924	71,292,836

8 Other income

	2019	2018
Transmission pole sales	64,241	170,533
Gain on disposal of property, plant and equipment	-	11,205
Net foreign exchange gains on items other than borrowings, cash at bank and cash in hand	1,997,650	305,302
Miscellaneous income	99,659	34,433
	2,161,550	521,473

9 Finance (costs)/ income - net

Finance income

	2019	2018
Interest income	4,465,639	2,559,483
Net foreign exchange gains on borrowings, cash at bank and in hand	983,768	2,142,087
	5,449,407	4,701,570

Notes to the financial statements

9 Finance costs / income - net (continued)

	2019 Shs '000	2018 Shs '000
Finance costs		
Interest expense	3,794,857	1,168,169
Other finance charges	177,931	197,214
	3,972,788	1,365,383

10 Distribution cost

	2019 Shs '000	2018 Shs '000
Transport	5,509,802	4,866,052
Storage	1,962,279	2,265,347
Brokerage	695,509	573,846
Others	136,584	528,286
	8,304,174	8,233,531

11 Administrative expenses

	2019 Shs '000	2018 Shs '000
Employee costs (note 12)	3,942,817	4,255,657
Insurance	331,197	359,599
Repair and maintenance	8,106	(17,057)
Travelling expense	418,791	524,260
Management fees	4,994,182	3,475,899
Auditors remuneration	161,100	160,249
Other expenses	795,083	3,387,538
Depreciation, amortization and write off	402,738	549,665
Loss on disposal of property, plant and equipment	273,488	-
	11,328,502	12,695,810

12 Employee costs

	2019 Shs '000	2018 Shs '000
The following items are included within employee benefits expense:		
Salaries and wages	18,708,009	19,492,046
National Social Security Fund contributions	1,971,892	1,975,068
Gratuity (note 25)	573,862	686,515
	21,253,763	22,153,629
Employee costs are classified under:		
Cost of sales	17,310,946	17,897,972
Administrative expenses	3,942,817	4,255,657
	21,253,763	22,153,629

Notes to the financial statements

13 Income tax expense

	2019	2018
	Shs'000	Shs'000
Current income tax	-	2,657,529
Deferred income tax (note 29)	**(2,501,820)**	1,473,976
Income tax expense	**(2,501,820)**	4,131,505
(Loss)/profit before income tax	**(8,728,825)**	13,308,742
Tax calculated at the statutory income tax rate of 30% (2018:30%)	**(2,618,648)**	3,992,623
Tax effects of:		
- Expenses not deductible for tax purposes	**116,828**	138,883
Income tax (expense)/credit	**(2,501,820)**	4,131,506

The movement in current income tax recoverable was as follows:

	2019	2018
At start of the year	**6,654,872**	6,409,197
Charge to profit or loss	-	(2,657,529)
Tax paid	73	2,903,204
At end of year	6,654,945	6,654,872

14 Dividends

During the year, a dividend of Shs Nil (2018: Shs 8,000 million) was declared. Payment of dividend is subject to withholding tax at rates depending on the tax status of the recipient.

Notes to the financial statements

15 Property, plant, equipment and right-of-use assets

	Buildings & leasehold improvements	Bearer plants - tea	Bearer plants - forest	Plant and machinery	Vehicles and equipment	Assets under construction	Capital goods in transit	Right of use assets*	Total
Cost									
At 1 January 2018	21,071,397	24,404,514	4,887,187	48,204,160	[illegible]	4,064,325	456,997	-	[illegible]
Additions	[illegible]	[illegible]	[illegible]	[illegible]	385,050	13,511,651	4,755,450		[illegible]
Transfers	211,051	-	-	1,216,957	12,072	(1,449,780)		-	(6)
Write-off	(3,590)	-	-	(352,522)	(3,310)	-			(359,458)
At 31 December 2018	22,139,102	25,060,014	5,381,237	[illegible]	[illegible]	16,105,093	5,211,396		130,195,397
At 1 January 2019	22,139,102	25,060,014	5,384,237	[illegible]	[illegible]	16,105,093	5,211,396		130,195,397
Additions	78,513	944,842	550,488	5,275,031	10,477	7,475,105	(5,211,396)	-	[illegible]
Adoption of IFRS 16		-	-	-	-	-	-	2,669,795	2,669,752
Disposals	-	-	-	-	(20,568)	-		-	(20,568)
Transfers	125,811	-		1,122,154		(1,217,965)			
Write-off	(105,877)			(371,330)	(10,076)	-	-	-	(487,283)
At 31 December 2019	22,168,701	26,004,856	6,493,725	60,773,436	3,614,293	19,535,967	-	2,669,752	141,820,358
Accumulated Depreciation									
At 1 January 2018	5,854,515	6,515,001	1,866,765	26,173,876	2,456,823		-	-	41,442,530
Charge for the year	454,259	457,014	787,296	2,275,105	352,421	-	-	-	4,326,095
On write-off	(5,103)	-	-	(194,284)	(5,033)	-	-	-	(204,528)
At 31 December 2018	6,303,171	6,982,854	2,654,061	28,164,201	2,804,211	-	-	-	46,918,608
At 1 January 2019	6,303,171	6,982,854	2,654,061	28,164,201	2,804,211	-	-	-	46,918,608
Charge for the year	424,475	461,254	355,184	3,344,152	368,001	-	-	-	4,964,997
On disposals		-	-	-	(10,458)			-	(10,458)
On write-off	(55,578)	-		(104,293)	(6,806)	-	-	-	(164,700)
At 31 December 2019	7,160,066	7,474,098	3,009,680	35,685,060	3,093,002	-	-	-	48,724,335
Carrying Amount									
At 31 December 2018	15,881,301	18,077,110	2,727,533	22,183,870	925,802	16,105,093	5,211,396	-	83,274,788
At 31 December 2019	15,417,745	18,157,224	4,084,128	26,886,457	544,295	19,535,967	-	2,669,752	93,100,022

* Additions to right of use assets relate to property leases under IFRS 16, which the Company adopted on January 1, 2019. Refer to note 2(b)(i) and 4

Notes to the financial statements

		2019	2018
16	**Prepaid operating lease**	**Shs '000**	Shs '000
	Costs		
	At start of year	2,669,782	2,661,865
	Add: Additions	-	57,917
	Reclassified on adoption of IFRS 16	(2,669,782)	
	Less: Written off		(50,000)
		-	2,669,782
	Amortisation:		
	At start of year	(1,169,913)	(1,137,549)
	Charge for the year	-	(82,364)
	Reclassified on adoption of IFRS 16	(1,169,913)	-
	Written off	-	50,000
	At 31 December	-	(1,169,913)
	At end of year	-	1,499,869
17	**Biological assets**		
	Valuation of green leaf shoots	893,072	611,374

Green leaf is carried at fair value less estimated point of sales costs. The fair value (i.e. level 3 inputs are unobservable input for the assets or liability) of green leaf were determined based on the expected net cash flows from those assets, discounted at a current market determined pre-tax rates. The fair value of the green leaf has been categorized as level 3 because of the majority of the inputs for the valuation are based on the Company's own data.

		2019	2018
18	**Inventories**		
	Finished goods	16,072,194	18,666,796
	Consumable stores	15,444,871	17,206,729
		31,517,065	35,873,525
	Less: Provision for obsolete stock	(1,677,884)	(2,658,194)
		29,839,181	33,215,331
	Goods in transit	943,363	2,375,739
	Tea nurseries	489,755	411,226
		31,272,301	36,002,296
19	**Trade and other receivables**		
	Trade receivables	1,584,594	1,861,487
	Prepayments and other receivables	13,456,074	5,331,418
	Impairment allowance for other receivables	(176,488)	(176,488)
	Due from related companies (**note 29**)	48,777,532	46,327,311
		63,641,712	53,343,728

Notes to the financial statements

20 Derivative financial instruments

	2019	2018
	Shs '000	Shs '000
At start of year	2,444,589	2,010,207
Fair value (loss)/gain	(2,444,589)	434,382
Derivative asset/(liability)	-	2,444,589

21 Cash and cash equivalents

	2019	2018
Cash in hand	724,370	228,300
Cash at bank	218,237	271,949
	942,607	500,249
Bank overdraft	17,927,252	26,420,710

22 Share capital

	2019	2018
Issued number of shares	926,108	8,326,108
Share capital (Shs '000)	4,630,540	41,630,540

The total authorised number of ordinary shares is 8,400,000 with a par value of Shs 5,000 per share. All issued shares are fully paid.

Following an assessment of the Company's capital requirement during the year, it was resolved to reduce the share capital by cancellation of Shs 7,400,000 issued ordinary shares equivalent to Shs 37 billion which was adjusted against the loan of the Parent Company, Borelli Tea Holdings Limited.

23 Term loans

	2019	2018
	Shs '000	Shs '000
Non-current portion		
Term loan	66,344,986	8,359,312
Current portion		
Term loan	17,384,001	2,786,438
Interest accrued on term loan	133,431	185,250
	17,517,432	2,971,688
Total	83,862,418	11,331,000

Banks	**Absa (Former Barclays Bank (U) Limited)**	**Stanbic Bank (U) Limited**	**DFCU Bank Limited**
Facility	Term Loan and overdraft	Term Loan and Overdraft	Term loan
Limit	Term Loan of US$ 18 million Overdraft of US$ 6 million	Term Loan of US $ 2 Million Overdraft of US$ 2 million	Term Loan of US$ 5 million

Notes to the financial statements

23 Term loans (continue)

Purpose	Construction new factory premises and working capital	New production line at Kiko and Working capital	New Production line at Mwenge
Rate of Interest	Base rate plus 1 months LIBOR	Base rate plus 3 months LIBOR	Bank base rate Less 4.9%
Repayment	Repayable in 5 years	Repayable in 5 years	Repayable in 8 years
Security	Mortgage over property title LRV 578 folio 24, LRV 1903 folio 8, LRF 593 folio 2, LRV 2672 folio 17 and LRV 515 folio 20 located at Bugambe, registered in the name of the Company. Mortgage over property title LRV 546 folio 17, LRV 569 folio 13 & 14 at Toroos.	Legal mortgage over property title LRV 547 folio 2 at Musizi and second ranking debenture charge over all fixed and floating assets of the Company.	Legal morgate over propery title LRV 560 Folio 15, LRV 569 Folio 15 and LRV 503 folio 21 at Ankole and Debenture charge over present and future movble and immovable assets in respect of the above property.

The Company has not fulfilled some of the covenants due to decline in sales price which has affected tea industry in whole of East Africa. The management is confident and have provided evidence to bank satisfaction for proper servicing of the loan.

Notes to the financial statements

24 Deferred tax liabilities	2019	2018
	Shs'000	Shs'000
At start of year	9,759,134	8,427,135
Charge to profit and loss account (note 12)	(2,501,820)	1,473,976
Tax effect of re-measurements of retirement benefits obligations charged to OCI	(136,823)	(141,977)
At end of year	7,120,491	9,759,134

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

	2019	2018
At beginning of year	(9,759,134)	(8,427,132)
Taxable temporary difference movement on tangible fixed assets	(1,862,540)	(968,835)
Taxable temporary difference on retirement benefit	93,182	(20,307)
Taxable / (deductible) temporary difference on forex fluctuations	298,648	360,435
Taxable / (deductible) temporary difference on provisions	(294,093)	134,255
Increase (decrease) in tax losses available for set off against future taxable income	3,604,377	(92,551)
(Deductible) temporary difference on fair valuation	(798,867)	(764,996)
	(7,120,491)	(9,759,134)

25 Retirement benefit obligation	2019	2018
	Shs'000	Shs'000
Liability in the statement of financial position	2,992,686	2,681,412
Charge to profit or loss	573,862	686,515
Re- measurement – Actuarial (Gains)/ Losses recognized in the year	456,078	473,255

The movement in the retirement benefit obligation is shown below:

	2019	2018
At start of year	2,681,412	2,733,795
Current service cost	197,221	180,844
Interest cost	376,641	342,856
Benefits paid during the period	(718,666)	(549,438)
Re-measurements- actuarial (gains)/ losses recognized in the year	456,078	473,255
At end of year	2,992,686	2,681,412

Notes to the financial statements

25 Retirement benefit obligation (Continued)

The significant actuarial assumptions used in the valuation were as follows:

Description	**Assumption**
Mortality table	SA (85-90)
Retirement age	55 years
Discount rate	Years 1-5 – 16.54% Years 5-10 – 14.85% Years 10-15 – 15.49% Years >15 – 16.22%
Salary escalation	9.80% per annum
Average remaining work life	22 years
Early withdrawal & disablement	Management staff – 1% p.a. Non management staff – 5% p.a

	Impact on Retirement Benefits Obligation (RBO)		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1%	Increase by 5.70%	Decrease by 6.34%

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the retirement benefits obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period. With the exception of the discount rate, the actuary does not consider the retirement benefits obligation to be materially sensitive to the other actuarial assumptions.

The weighted average duration of the defined benefit obligation is 6 years.

Expected maturity analysis of the undiscounted retirement benefits obligation is as follows:

	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Between 2 and 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
At 31 December 2019:					
Gratuity benefits	117,774	588,935	1,524,198	121,557,472	123,788,379
At 31 December 2018:					
Gratuity benefits	181,855	347,170	1,642,217	120,295,118	122,466,360

26 Trade and other payables

	2019 Shs'000	2018 Shs'000
Trade payables	2,817,912	2,769,202
Amounts due to related companies (note 29)	116,541	1,509,091
Accrued expenses and other payables	3,493,963	5,018,487
	6,428,416	9,296,780

Notes to the financial statements

27 Contingent liabilities

The Company is a defendant in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions will not give rise to a significant loss.

28 Capital commitments

Capital expenditure contracted for at the reporting date but not recognised in the financial statements is as follows:

	2019 Shs'000	2018 Shs'000
Property, plant and equipment	1,149,088	1,878,573

29 Related party transactions

The Company is a subsidiary of Borelli Tea Holdings Limited. The ultimate parent and controlling entity of the Company is McLeod Russel India Limited, a company incorporated in India.

The following transactions were carried out with related parties:

i) Purchase of goods and services	2019 Shs'000	2018 Shs'000
McLeod Russel India Limited - management fees (excluding VAT)	-	558,900
McLeod Russel India Limited - reimbursement of expenses	-	203,391
Borelli Tea Holdings Limited - license fee (excluding VAT)	4,445,933	2,248,815
Gisovu Tea Company Limited - purchase of items	-	51,251
McLeod Russel Africa Limited - reimbursement of expenses	18,021	-
McLeod Russel Africa Limited - brokerage	111,053	427,139
	4,570,007	3,489,496

ii) Key management compensation

Key management includes directors (executives and non-executives) and members of senior management. The compensation paid or payable to key management for employee services is shown below:

Salaries and other short-term employment benefits	2,026,897	2,596,210

iii) Sales of goods

McLeod Russel Africa Limited	-	100,266
Gisovu Tea Company Limited – Reimbursement for expenses	-	20,980
Pfunda Tea Company Limited – Reimbursement for expenses	-	21,165
McLeod Russel Africa Limited – Reimbursement for expenses	7,648	-
McLeod Russel Middle East – Interest on delayed payment	13,690	10,463
McLeod Russel Middle East	129,886	2,512,819
	264,483	2,665,693

i) Outstanding balances arising from sale and purchase of goods/ services

Amounts due from related parties:		
Borelli Tea Holdings Limited - loan	44,429,483	45,697,575
Borelli Tea Holdings Limited – interest receivable	4,287,152	
McLeod Russel Middle East	60,897	636,448
Pfunda Tea Company Limited	-	9,288

	48,777,592	46,327,399

Notes to the financial statements

29 Related party transactions (Continued)

	2019 Shs'000	2018 Shs'000
Amounts due to related parties:		
McLeod Russel India Limited	-	203,391
Gisovu Tea Company Limited	-	30,271
McLeod Russel Africa Limited	116,541	20,293
	116,541	253,955

The loan to Borelli Tea Holdings Limited is unsecured and bears interest at commercial rate.

30 Events after reporting date

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken by governments to contain the spread of the virus have triggered significant disruptions to business operations of the Company.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

31 Comparative figures

Previous year's figures have been regrouped/ reclassified in order to make them comparable with that of the current financial period, wherever necessary.