PFUNDA TEA COMPANY LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2017

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PRINCIPAL PLACE OF BUSINESS
P.O. Box 206
Rubavu
Rwanda

BANKERS
I&M Bank Rwanda Limited
P.O. BOX 354
Kigali, Rwanda

COMPANY SECRETARY
Trust Law Chambers
TLC House,
KG 569, Street, Kacyiru,
P.O. Box 6679
Kigali
Rwanda

AUDITOR
Ernst & Young Rwanda Limited
Certified Public Accountant
M Peace Plaza Executive Wing 6th Floor
KN 4 Avenue 72St
P. O. Box 3638
Kigali
Rwanda

The directors submit their report and the audited financial statements for the year ended 31 December 2017 which show the state of the company's affairs.

1. PRINCIPAL ACTIVITY

The company's principal activity is the cultivation and processing of black tea and other agricultural produce.

2. RESULTS

The results for the year are set out on page 8.

3. DIVIDEND

The Directors has declared and paid interim dividend of Rwf 500 Million (2016 Rwf Nil) and the directors recommend the payment of final dividend of Rwf 300 Million for the year ended 31 December 2017 (2016 Rwf 300 Million).

4. RESERVES

The reserves of the company are set out on page 25 Note 12 (b).

5. DIRECTORS

The directors who served during the year and to the date of this report were: -

| | | |
|---|---|---|
| Mr. Dilsher Sen | - | Chairman |
| Mr. Pradip Bhar | - | Member (Appointed on 4 August 2017) |
| Mr. Nallepily R. Srinivasan | - | Member (Retired on 4 August 2017) |
| Mr.Rajeev Takru | - | Member |
| Mr.Azam Monem | - | Member |

6. AUDITORS

Ernst & Young Rwanda Limited have expressed their willingness to continue in office.

By Order of the Board
Company secretary

15/03/2018

PFUNDA TEA COMPANY LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

The Law No 27/2017 of 31/05/2017 relating to Companies requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Law No. 27/2017 of 31/05/2017 relating to Companies. The directors are of the opinion that the financial statements present fairly in all material respects the financial affairs of the Company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

..............................
Director

..............................
Director

....15..../.....03..../2018
Date

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Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
PFUNDA TEA COMPANY LIMITED

## OPINION

We have audited the accompanying financial statements of Pfunda Tea Company Limited, which comprise the statement of financial position as at 31 December 2017, statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages 7 to 30.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pfunda Tea Company Limited as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Law No. 27/2017 of 31/05/2017 relating to Companies.

## BASIS FOR OPINION

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

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Directors' Report, which we obtained prior to the date of this report and the Annual Report. Other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by Law No. 27/2017 of 31/05/2017 relating to Companies and for such internal control as management determines 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, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with ISAs, 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.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company's audit. We remain solely responsible for our audit opinion.
- 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

As required by the Law No. 27/2017 of 31/05/2017 relating to companies, we report to you based on our audit that: -

i) We have no relationship, interests and debts in the company;

ii) 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;

iii) In our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books;

iv) We have communicated to you through the management letter, internal control weaknesses identified in the course of our audit including our recommendations with regard to those matters.

Allan Gichuhi
For Ernst & Young Rwanda Limited

15/03/2018

PFUNDA TEA COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

| ASSETS | Note | 2017 Rwf 000 | 2016 Rwf 000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 3 | 2,353,476 | 2,545,166 |
| Biological assets | 4 | 20,034 | 10,701 |
| | | 2,73,510 | 2,555,867 |
| CURRENT ASSETS | | | |
| Inventories | 5 | 753,039 | 918,378 |
| Amounts due from related parties | 6(d) | 1,279,039 | 632,084 |
| Trade and other receivables | 7 | 429,573 | 513,246 |
| Tax recoverable | 9(a) | - | 138,648 |
| Cash and cash equivalents | 8 | 1,745,790 | 607,881 |
| | | 4,207,441 | 2,810,237 |
| TOTAL ASSETS | | 6,580,951 | 5,366,104 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 11 | 1,000 | 1,000 |
| Share premium | 12(a) | 56,472 | 56,472 |
| Proposed dividend | 12(b) | 300,000 | 300,000 |
| Retained earnings | 12(b) | 5,678,090 | 4,647,131 |
| | | 6,035,562 | 5,004,603 |
| NON CURRENT LIABILITIES | | | |
| Deferred tax liability | 9(d) | 1,694 | 34,002 |
| CURRENT LIABILITIES | | | |
| Amounts due to related parties | 6(e) | 95,399 | 63,048 |
| Tax payable | 9(a) | 112,461 | - |
| Trade and other payables | 10 | 335,835 | 264,451 |
| | | 543,695 | 327,499 |
| TOTAL EQUITY AND LIABILITIES | | 6,580,951 | 5,366,104 |

The financial statements were approved by the Board of Directors on ...15.../...03../2018 and signed on its behalf by:-

..........................................
Director

..........................................
Director

PFUNDA TEA COMPANY LIMITED
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017

| | Note | 2017<br>Rwf '000 | 2016<br>Rwf '000 |
|---|---|---|---|
| Sales | 13 | 6,391,259 | 4,510,374 |
| Cost of sales | 14 | (3,046,859) | (2,510,945) |
| Gross profit | | 3,344,400 | 1,999,429 |
| Other income | 15 | 237,702 | 279,800 |
| Changes in fair value of biological assets | 16 | 9,332 | 10,701 |
| | | 3,591,434 | 2,289,930 |
| Selling and distribution costs | 17 | (508,332) | (493,798) |
| Administrative expenses | 18 | (923,640) | (783,355) |
| Profit before tax | | 2,159,462 | 1,012,777 |
| Income tax expense | 9(b) | (329,503) | (171,254) |
| Profit for the year | | 1,830,959 | 841,523 |

PFUNDA TEA COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

| | Share Capital Rwf 000 | Share Premium Rwf 000 | Proposed dividend Rwf 000 | Retained Earnings Rwf 000 | Total Rwf 000 |
|---|---|---|---|---|---|
| At 1 January 2016 | 1,000 | 56,472 | 500,000 | 4,105,608 | 4,663,080 |
| Proposed dividend for 2016 | - | - | 300,000 | (300,000) | - |
| Dividend paid for 2015 | - | - | (500,000) | - | (500,000) |
| Profit for the year | - | - | - | 841,523 | 841,523 |
| At 31 December 2016 | 1,000 | 56,472 | 300,000 | 4,647,131 | 5,004,603 |
| At 1 January 2017 | 1,000 | 56,472 | 300,000 | 4,647,131 | 5,004,603 |
| Interim dividend for 2017 paid | | | | (500,000) | (500,000) |
| Final proposed dividends for2017 | | | 300,000 | (300,000) | - |
| Dividend paid for 2016 | | | (300,000) | - | (300,000) |
| Profit for the year | - | - | - | 1,830,959 | 1,830,959 |
| At 31 December 2017 | 1,000 | 56,472 | 300,000 | 5,678,090 | 6,035,562 |

PFUNDA TEA COMPANY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | Rwf'000 | Rwf'000 |
| OPERATING ACTIVITIES | | | |
| Profit before tax | | 2,159,462 | 1,012,777 |
| Adjustment for: | | | |
| Depreciation of property, plant and equipment | 3 | 355,286 | 364,285 |
| Fair value gain on biological assets | 4 | (9,333) | (10,701) |
| Operating profit before changes in working capital | | 2,505,415 | 1,366,361 |
| Decrease/(Increase) in inventories | | 165,339 | (298,062) |
| Decrease in trade and other receivables | | 83,673 | 103,759 |
| (Increase)/Decrease in amounts due from related parties | | (646,955) | 165,550 |
| Increase in trade and other payables | | 71,384 | 63,233 |
| Increase in amounts due to related parties | | 32,351 | 68,285 |
| Tax paid | 9(a) | (109,702) | (722,273) |
| Net cash flows from operating activities | | 2,101,505 | 746,853 |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 3 | (163,596) | (255,335) |
| Net cash flows used in investing activities | | (163,596) | (255,335) |
| FINANCING ACTIVITIES | | | |
| Dividend paid | | (800,000) | (500,000) |
| Net cash flows utilised in investing activities | | (800,000) | (500,000) |
| Net increase/(decrease) in cash and cash equivalents | | 1,137,909 | (8,482) |
| Cash and cash equivalents at 01 January | | 607,881 | 616,363 |
| Cash and cash equivalents at 31 December | 8 | 1,745,790 | 607,881 |

1. CORPORATE INFORMATION

Pfunda Tea Company Limited is a limited liability company incorporated and domiciled in Rwanda. The address of its registered office and principal place of business is stated on page 1. The principal shareholder is Borelli Tea Holdings Limited which is a fully owned subsidiary of McLeod Russell India Limited incorporated in India

The company's principal activity is the cultivation and processing of black tea and other agricultural produce

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Rwandan Franc and all values are rounded to the nearest thousand (Rwf '000), except when otherwise stated.

Statement of compliance

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Presentation of financial statements

The company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 21 (iii).

2.2 Significant accounting judgements, estimates and assumptions

In the process of applying the company's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. Although these estimates are based on the management's knowledge of current events and actions, actual results ultimately may differ from those estimates. The most significant use of judgments and estimates are as follows:

Going concern

The company's management has made an assessment of the company's ability to continue as a going concern and is satisfied that the company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Property, plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The rates used are set out in the accounting policy 2.4 (d) below.

Income taxes

The company is subject to income taxes under the Rwanda Income Tax Law. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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 the deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

2. ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures

(a) New and amended standards and interpretations

The company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual financial statements of the company. The nature and the impact of each new standard or amendment is described below:

i) The following amendments did not have an impact on the company

1. Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4
2. Transfers of Investment Property - Amendments to IAS 40
3. IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28
4. IFRS Practice Statement 2: Making Materiality Judgements

(ii) Standards issued but not yet effective

*IFRS 9 Financial Instruments*
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company plans to adopt the new standard on the required effective date. Overall, the Company expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9.

(a) Classification and measurement

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. The equity shares in listed companies are intended to be held for the foreseeable future. The Company expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Company were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss. Premiums outstanding and other receivable balances are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Company expects that these will continue to be measured at amortised cost under IFRS 9. However, the Company will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

2. ACCOUNTING POLICIES

2.3 Changes in accounting policies and disclosures

(a) New and amended standards and interpretations

(ii) Standards issued but not yet effective (continued)

(b) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Company expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

(c) Hedge accounting

The Company believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Company does not expect a significant impact as a result of applying IFRS 9. The Company will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year.
Early adoption is permitted. The Company plans to adopt the new standard on the required effective date. The Company is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments. The Company does not expect a significant impact on its balance sheet on the adoption of IFRS 15.

iii) Standards issued and are already effective

*Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and they have any impact on the Company as it has bearer plants from the tea bushes.

2. ACCOUNTING POLICIES (continued)

iv) Standards issued and are already effective

*IFRS 16* Leases

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Recognition of Deferred Tax Asset for Unrealised Losses*-Amendment to IAS 12;

Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and on cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example, by providing a, net debt, reconciliation. However, in this case the changes in other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies

a) Foreign currency transactions and balances

*Functional and presentation currency*

Items included in the financials are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Rwanda Francs (Rwf), which is the Company's functional and presentation currency.

*Transactions and balances*

Foreign currency transactions are translated using daily average exchange rates as declared by the National Bank of Rwanda. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'.

All other foreign exchange gains and losses are presented in the statement of comprehensive income account within 'other income'.

b) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax (VAT), rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below.

The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

Revenue from the export of made tea on auction is recognised when a binding offer is made by a buyer. In the case of direct export sales Revenue from sales of goods is recognized when the goods are delivered and the title has passed. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales-related taxes collected on behalf of the Government of Rwanda.

c) Taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit and loss account 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

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Rwandan Income Tax Act. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

c) Taxes (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 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 either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable,
- When receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses where applicable.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in profit or loss as an expense when incurred.

Land is not depreciated

Depreciation is charged to profit or loss on a straight line basis to write down the cost of each asset to its residual value over its estimated useful life is as follows, according to their estimated useful lives.

| | |
|---|---|
| Buildings | 10-20% |
| Bearer assets | 2% |
| Motor vehicles | 25% |
| Factory machines and equipment | 20-25% |
| Office and other equipment | 20% |
| Computer equipment | 33.3% |

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

d) Property, plant and equipment (continued)

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in profit and loss.

e) Bearer plants and Biological assets

Bearer plant which are mainly tea bushes are measured at cost less accumulated depreciation and any accumulated impairment losses. Bearer plant are included in property, plant and equipment. Agriculture produce which is mainly green leaf is measured at cost at the point of harvest. Such measurement includes all direct costs involved in the green leaf production.

f) Employee benefits

(i) Retirement benefit obligations

The Company and all its employees contribute to the Rwandan National Social Security Fund, which is a defined contribution retirement benefits scheme. A defined contribution scheme is a retirement benefits scheme under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Company's contributions to the defined contribution retirement benefits scheme are charged to the profit and loss account in the year to which they relate.

(ii) Other entitlements

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

g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted Average method less provision for impairment. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Tea nurseries are valued on an accumulated cost basis and include all applicable labour overheads, less recoveries for issues.

h) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

i) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are a classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision 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 provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

j) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

k) Share capital

Ordinary 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.

l) Dividends

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

m) Operating expenses

All operating expenses include staff costs, office expenses, travel expenses, professional charges, audit fees, amortisation, postage and communication, training expenses and other operating expenses. General operating expenses incurred in the current year are recognised in profit or loss. Any payment in excess of the expenses incurred during the year is recorded in the statement of financial position under prepayments. Expenses incurred but not paid for in the current year are accrued in the current year.

3. PROPERTY, PLANT AND EQUIPMENT

a) 31 December 2017

| | Land and building Rwf 000 | Bearer plants Rwf 000 | Motors vehicles Rwf 000 | Factory machine and equipment Rwf 000 | Office and other equipment Rwf 000 | Computer equipment Rwf 000 | Work in progress Rwf 000 | TOTAL Rwf 000 |
|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | |
| At 01/01/2017 | 2,560,405 | 1,123,759 | 508,200 | 1,611,212 | 120,900 | 36,880 | - | 5,961,355 |
| Additions | 38,838 | 60,041 | - | 43,195 | - | - | 21,522 | 163,596 |
| Cost as at 31/12/2017 | 2,599,243 | 1,183,800 | 508,200 | 1,654,407 | 120,900 | 36,880 | 21,522 | 6,124,951 |
| DEPRECIATION | | | | | | | | |
| At 01/01/2017 | 1,399,033 | 52,233 | 495,614 | 1,319,663 | 113,050 | 36,596 | - | 3,416,189 |
| Charge for the year | 189,984 | 23,676 | 10,878 | 127,685 | 2,825 | 239 | - | 355,286 |
| At 31/12/2017 | 1,589,017 | 75,909 | 506,492 | 1,447,348 | 115,875 | 36,835 | - | 3,771,475 |
| NET BOOK VALUE | | | | | | | | |
| At 31/12/2017 | 1,010,226 | 1,107,891 | 1,708 | 207,059 | 5,025 | 45 | 21,522 | 2,353,476 |

b) 31 December 2016

| | Land and building Rwf 000 | Bearer plants Rwf 000 | Motors vehicles Rwf 000 | Factory machine and equipment Rwf 000 | Office and other equipment Rwf 000 | Computer equipment Rwf 000 | Work in progress Rwf 000 | TOTAL Rwf 000 |
|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | |
| At 01/01/2016 | 2,534,279 | 555,709 | 504,922 | 1,503,627 | 120,900 | 36,880 | 449,703 | 5,706,020 |
| Transfer from WIP | - | 568,049 | - | - | - | - | (568,049) | - |
| Additions | 26,126 | - | 3,278 | 107,585 | - | - | 118,346 | 255,335 |
| Cost as at 31/12/2016 | 2,560,405 | 1,123,758 | 508,200 | 1,611,212 | 120,900 | 36,880 | - | 5,961,355 |
| DEPRECIATION | | | | | | | | |
| At 01/01/2016 | 1,208,467 | 40,172 | 442,084 | 1,221,187 | 108,121 | 31,873 | - | 3,051,904 |
| Charge for the year | 190,565 | 12,062 | 53,530 | 98,475 | 4,929 | 4,724 | - | 364,285 |
| At 31/12/2016 | 1,399,032 | 52,234 | 495,614 | 1,319,662 | 113,050 | 36,597 | - | 3,416,189 |
| NET BOOK VALUE | | | | | | | | |
| At 31/12/2016 | 1,161,373 | 1,071,524 | 12,586 | 291,550 | 7,850 | 283 | - | 2,545,166 |

## 4. BIOLOGICAL ASSETS

Agricultural activity harvest of biological assets is defined as the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets. Biological assets relates to expected yield (tea leaves on tea bushes) from the bearer plants at the reporting date.

| | | 2017 Rwf'000' | 2016 Rwf'000' |
|---|---|---|---|
| i) | At start of the year | 10,701 | - |
| | Change in fair value of biological assets | 9,333 | 10,701 |
| | At end of year | 20,034 | 10,701 |

The fair value measurement for biological assets is categorised under level 3. Significant inputs are as detailed below.

ii) Significant assumptions made in determining the fair value of biological assets and agricultural produce are:

- Pfunda harvests green leaf twice a month on average, the plucking is done every $15^{th}$ day. All mature tea leaf are plucked every $15^{th}$ day.
- Tea leaf, plucked on nth day, would have become mature for plucking or almost mature (but not fully mature). At the closing date the expected yield on the biological asset to the company on nth day from the valuation date is computed as follows; n/15th of the expected yield on as at the reporting date is equivalent to the expected yield (biological asset).
- The quantity of green leaf on tea bushes has been valued on the basis of fair valuation i.e. the yield expected from the bearer plants multiplied by the market value of the yield at the close of the period (Rwandan Franc per kg of green leaf).

In determining the fair value of biological assets, the company uses the present value of expected cash flows from the asset if sold in an open market. The company considers this in coming up with the fair value of the biological asset. Management uses estimates based on their experience, prices of cut harvested tea. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed on a regular basis to reduce any differences between estimates and actual experience. The significant assumptions used are set out above.

The fair values of the biological assets are categorised under Level 3 based on the information set out in the basis of preparation accounting policy.

| 5. INVENTORIES | 2017 Rwf'000' | 2016 Rwf'000' |
|---|---|---|
| Office and factory supplies | 181,278 | 227,607 |
| Packaging materials | 66,523 | 28,309 |
| Finished product- black tea | 505,238 | 662,462 |
| | 753,039 | 918,378 |

6. RELATED PARTY TRANSACTIONS

The company is controlled by Borelli Tea Holdings Limited incorporated in the United Kingdom a wholly owned subsidiary of McLeod Russel India Limited and the remaining 10% of the shares are held by Cooperatives Des Théiculteurs de Pfunda (The Co-operative of Pfunda Tea). Pfunda sells the bulk of its black tea at the Mombasa tea Auction and private markets. Cooperatives Des Théiculteurs de Pfunda (The Co-operative of Pfunda Tea) supplies 75% of the green leaf to Pfunda Tea Company Limited.

The following transactions were carried out with related parties:

a) Sale of goods

| | 2017 Rwf 000 | 2016 Rwf 000 |
|---|---|---|
| Mcleod Russel Africa Limited | - | 193,309 |
| Mcleod Russel Middle East | 81,050 | 258,701 |
| | 81,050 | 452,010 |

b) Purchase of goods

| | | |
|---|---|---|
| Mcleod Russel Africa Limited | - | 271,198 |
| Mcleod Russel Uganda Limited | - | 443 |
| Gisovu Tea Company Limited | 2,565 | 8,241 |
| | 2,565 | 279,882 |

c) Management fees

| | | |
|---|---|---|
| Borelli Tea Holdings Limited | 283,212 | 247,371 |

6. RELATED PARTY TRANSACTIONS (CONTINUED)

d) Amounts due from related parties

| | 2017 Rwf 000 | 2016 Rwf 000 |
|---|---|---|
| Borelli Tea Holdings Limited | 1,252,953 | 602,604 |
| Mcleod Russel Middle East | 26,086 | 29,480 |
| | 1,279,039 | 632,084 |

e) Amounts due to Related parties

| | 2017 Rwf 000 | 2016 Rwf 000 |
|---|---|---|
| Borelli Tea Holdings Limited | 93,691 | 58,901 |
| Mcleod Russel UGANDA Limited | 1,056 | - |
| Mcleod Russel India Limited | - | 2,633 |
| Gisovu Tea Company Limited | 652 | 1,514 |
| | 95,399 | 63,048 |

7. TRADE AND OTHER RECEIVABLES

| | 2017 Rwf 000 | 2016 Rwf 000 |
|---|---|---|
| Trade receivables | 347,891 | 399,406 |
| Advance to suppliers | 76,566 | 86,518 |
| Other receivables | 4,671 | 27,044 |
| Salaries advance | 445 | 278 |
| | 429,573 | 513,246 |

8. CASH AND CASH EQUIVALENTS

| | 2017 Rwf 000 | 2016 Rwf 000 |
|---|---|---|
| Cash at bank | 1,745,283 | 607,204 |
| Cash in hand | 507 | 677 |
| | 1,745,790 | 607,881 |

Cash and cash equivalents included in the statement of cash flows comprises:

| | 2017 Rwf '000 | 2016 Rwf '000 |
|---|---|---|
| Cash and bank balances | 1,745,790 | 607,881 |

## 9. TAX

| | | 2017<br>Rwf 000 | 2016<br>Rwf 000 |
|---|---|---|---|
| (a) | Statement of Financial Position: | | |
| | At the start of year | (138,648) | 437,355 |
| | Charge for the year | 360,811 | 146,270 |
| | Current tax paid | (109,702) | (722,273) |
| | Tax payable /(recoverable) | 112,461 | (138,648) |
| (b) | Statement of profit or loss | | |
| | Corporate tax charge for the year | 360,811 | 146,270 |
| | Deferred tax (credit)/charge for the year | (32,308) | 24,984 |
| | | 328,503 | 171,254 |
| (c) | Reconciliation of tax charge for the year to the tax based on accounting profit: | | |
| | Profit before tax | 2,159,462 | 1,012,777 |
| | Tax at applicable rate of 15% (2016: 15%) | 323,920 | 151,917 |
| | Tax effect on net disallowable expenses | 4,838 | 23,507 |
| | Under/(over) provision in previous in period | (255) | (4,170) |
| | | 328,503 | 171,254 |
| (d) | Deferred tax liability | | |
| | As at 1 January | (34,002) | (9,018) |
| | Deferred tax credit/(charge) | 32,308 | (24,984) |
| | As at 31 December | (1,694) | (34,002) |

Deferred tax comprises of:

| Year ended 31 December 2017 | At start of year<br>Rwf'000 | Credit/(Charge) to statement of profit or loss<br>Rwf'000 | At year end<br>Rwf'000 |
|---|---|---|---|
| Accelerated depreciation on property plant and equipment | (35,362) | 31,703 | (3,658) |
| Provision for staff bonus | 1,360 | 605 | 1,965 |
| | (34,002) | 32,308 | (1,694 |
| **Year ended 31 December 2016** | | | |
| Accelerated depreciation on property plant and equipment | (9,018) | (26,344) | (35,362) |
| Provision for staff bonus | - | 1,360 | 1,360 |
| | (9,018) | (24,984) | (34,002) |

## 10. TRADE AND OTHER PAYABLES

| | 2017 Rwf '000 | 2016 Rwf '000 |
|---|---|---|
| Trade payables | 24,522 | 68,604 |
| Other payables | 311,313 | 195,847 |
| | 335,835 | 264,451 |

## 11. SHARE CAPITAL

| | 2017 | 2016 |
|---|---|---|
| Authorised, issued and fully paid 100 shares of Rwf 10,000 each | 1,000 | 1,000 |

## 12. RESERVES

a) Share premium

Share premium amounting to Rwf 56,472 arose from the issue of shares at a value higher than their par value in 2004.

b) Retained earnings

| | 2017 Rwf '000 | 2016 Rwf '000 |
|---|---|---|
| As at 1 January | 4,647,131 | 4,105,608 |
| Proposed dividend | (800,000) | (300,000) |
| Profit for the year | 1,830,959 | 841,523 |
| As at 31 December | 5,678,090 | 4,647,131 |

c) Dividends

The Directors has declared and paid interim dividend of Rwf 500 Million (2016 Rwf Nil) and the directors recommend the payment of final dividend of Rwf 300 Million for the year ended 31 December 2017 (2016 Rwf 300 Million).

## 13. SALES

| | 2017 Rwf '000 | 2016 Rwf '000 |
|---|---|---|
| Exports | 6,386,875 | 4,497,235 |
| Local sales | 4,384 | 13,139 |
| Total Sales | 6,391,259 | 4,510,374 |

## 14. COST OF SALES

| | 2017 | 2016 |
|---|---|---|
| Opening inventory | 662,463 | 362,523 |
| Purchase of materials and supplies | 372,983 | 442,227 |
| Closing inventory | (505,238) | (662,462) |
| Purchase of green leaves | 1,623,208 | 1,440,981 |
| Direct depreciation | 264,157 | 321,004 |
| Other production costs | 629,286 | 606,672 |
| | 3,046,859 | 2,510,945 |

| | 2017 Rwf 000 | 2016 Rwf 000 |
|---|---|---|
| **15. OTHER INCOME** | | |
| Staff House Rent | 19,385 | 15,995 |
| Foreign Exchange gains | 170,168 | 205,396 |
| Interest income | 40,321 | 38,487 |
| Sundry income | 7,828 | 19,922 |
| | 237,702 | 279,800 |
| **16. FAIR VALUE GAIN** | | |
| Change in fair value of biological assets | 9,332 | 10,701 |
| **17. SELLING AND DISTRIBUTION COSTS** | | |
| Transportation costs | 294,228 | 298,221 |
| Packaging materials | 43,318 | 35,946 |
| Courier charges | 17,866 | 13,134 |
| Warehousing charges | 127,858 | 119,711 |
| Commission costs | 2,900 | 15,018 |
| Brokerage costs | 22,162 | 11,768 |
| | 508,332 | 493,798 |
| **18 ADMINISTRATIVE EXPENSES** | | |
| Depreciation | 91,130 | 43,281 |
| Staff Costs | 126,703 | 197,558 |
| Rent, accommodation and travel | 2,824 | 8,992 |
| Audit Fees and consultancy charges | 32,717 | 25,439 |
| Management Fees | 383,212 | 247,371 |
| Telephone Costs | 2,613 | 6,667 |
| Buildings Repair and Maintenance | 2,297 | 1,349 |
| Equipment maintenance costs | 2,030 | 3,810 |
| Security expenses | 19,260 | 24,717 |
| Other Costs | 206,893 | 175,402 |
| Equipment and buildings insurance | 13,940 | 10,986 |
| Motor vehicle insurance | 5,513 | 9,244 |
| Staff Insurance | 18,936 | 18,645 |
| Medical Insurance | 1,494 | 1,851 |
| Bank Charges | 4,858 | 4,102 |
| Other Taxes | 9,220 | 3,941 |
| | 923,640 | 783,355 |

19. CAPITAL COMMITMENTS

There were no commitments and contingencies as at year end.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the company's continuing profitability and each individual within the company is accountable for the risk exposures relating to his or her responsibilities.

The company's principal financial liabilities comprise amounts due to related parties and trade and other payables. The main purpose of these financial liabilities is to raise finances for the company's operations. The company has trade and other receivables, amounts due from related parties, and cash and cash equivalents that arise directly from its operations.

The company is exposed to market risk, credit risk and liquidity risk. It is also subject to various operating risks. The company's policy is to monitor those business risks through the company's strategic planning process.

The company's senior management team oversees the management of these risks. The Board of Directors review and agrees policies for managing each of these risks which are summarised below:

(i) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risks: interest rate risk, currency risk and equity risk. Financial instruments affected by market risk include loans and borrowings and deposits. The salient exposures to market risks are discussed below.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The table below summarises the company's exposure to interest rate risk on cash in bank, trade receivables, trade payables and shareholders loans (issued at zero interest) as at 31 December:

| | 2017 Rwf '000 | 2016 Rwf '000 |
|---|---|---|
| ASSETS | | |
| Trade and other receivables | 429,558 | 513,246 |
| Amounts due from related parties | 1,279,039 | 632,084 |
| Cash and cash equivalents | 1,745,790 | 607,881 |
| TOTAL ASSETS | 3,454,387 | 1,753,211 |
| LIABILITIES | | |
| Trade and other payables | 212,969 | 202,175 |
| Amounts due to related parties | 218,266 | 125,324 |
| TOTAL LIABILITIES | 431,235 | 327,499 |

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Market risk (continued)

Price risk

The Company does not hold any financial instruments subject to price risk.

Cash flow and fair value interest rate risk

The company did not hold any financial instruments as at 31 December 2017 (2016: nil) that would expose it to either cash flow or fair value interest rate risk

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company's exposure to the risk of changes in foreign exchange rates relates primarily to the company's operating activities.
The company manages its foreign currency risk by holding adequate bank currencies in the relevant currencies and through immediate settlement.

The various foreign currencies to which the company was exposed at 31 December 2017 are summarised in the table below.

| 2017 | US$' | Rwf'000 |
|---|---|---|
| ASSETS | | |
| Trade and other receivables | - | 429,574 |
| Amounts due from related parties | 1,252,953 | - |
| Cash and cash equivalents | 299,810 | 1,445,980 |
| TOTAL ASSETS | 1,552,763 | 1,875,554 |
| LIABILITIES | | |
| Trade and other payables | 104,743 | 116,447 |
| Amounts due to related parties | 29,236 | 183,732 |
| TOTAL LIABILITIES | 133,979 | 300,179 |

| 2016 | US$ | Rwf'000 |
|---|---|---|
| ASSETS | | |
| Trade and other receivables | - | 513,246 |
| Amounts due from related parties | 771,032 | - |
| Cash and cash equivalents | 478,585 | 215,542 |
| TOTAL ASSETS | 1,249,617 | 728,788 |
| LIABILITIES | | |
| Trade and other payables | 104,743 | 116,447 |
| Amounts due to related parties | 75,061 | 63,789 |
| TOTAL LIABILITIES | 179,804 | 180,236 |

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The company is exposed to credit risk from its operating activities.

The amount that best represents the company's maximum exposure to credit risk at 31 December is as follows:

| | 2017<br>Rwf '000 | 2016<br>Rwf '000 |
|---|---|---|
| Trade and other receivables | 429,558 | 513,246 |
| Amounts due from related parties | 1,279,039 | 632,084 |
| | 1,708,597 | 1,145,330 |

No collateral is held for any of the above assets. All receivables are neither past due nor impaired and are within their approved credit limits, and no receivables have had their terms renegotiated.

(iii) 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.

Management perform cash flow forecasting and monitor rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs. 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 summarizes the maturity of the company's financial liabilities based on contractual undiscounted payments.

| 2017 | Less than 1year<br>Rwf '000 | >5 years<br>Rwf '000 | Total<br>Rwf '000 |
|---|---|---|---|
| Trade and other payables | 212,969 | - | 212,969 |
| Amounts due to related parties | 218,266 | - | 218,266 |
| | 431,235 | - | 431,235 |
| 2016 | | | |
| Trade and other payables | 202,175 | - | 202,175 |
| Amounts due to related parties | 125,324 | - | 125,324 |
| | 327,499 | - | 327,499 |

(iv) Capital management

Capital includes equity attributable to the equity holders of the company.

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return on capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the year ended 31 December 2017.

## 22 EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of events after the reporting date that require disclosure in or adjustments to the financial statements as at the date of this report.