

McLeod Russel Uganda Limited
Annual report and financial statements
for the year ended 31 December 2018

McLeod Russel Uganda Limited
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For the year ended 31 December 2018

The reports and statements set out below comprise the annual report and financial statements presented to the shareholders:

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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

Standard Chartered Bank (U) Limited
5 Speke Road
PO Box 7111
Kampala, Uganda

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

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

COMPANY SECRETARY

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

INDEPENDENT AUDITORS

Grant Thornton
Certified Public Accountants
Lugogo House
Plot 42, Lugogo By-Pass
PO Box 7158
Kampala, Uganda

PARENT COMPANY

Borelli Tea Holdings Limited incorporated in the United Kingdom

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Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 December 2018, 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.

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 comprehensive income for the year of Shs 8,846 million (2017: Shs 41,883 million) has been added to retained earnings.

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

DIVIDENDS

During the year, the Company declared a dividend of Shs 8,000 million (2017: Shs 20,000 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	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

AUDITOR

The Company's auditor's, 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.



Katende, Ssempebwa & Company
Secretary

2019

KATENDE, SSEMPBWA & COMPANY
Advocates, Solicitors &
Legal Consultants
Plot 20, Kampala Road
P.O. Box 2344, Kampala - Uganda
Phones: 233770, 241478, 233908
Fax: 256 - 41 - 257544

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Directors' Responsibilities and Approval

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 6 to 37, which have been prepared on the going concern basis, were approved by the board on APRIL 12, 2019 and were signed on their behalf by:



Director

2019



Director

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 6 to 37**. These financial statements comprise the statement of financial position as at 31 December 2018 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and 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 2018, 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.

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.

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:

Independent Auditor's Report (Continued)

- 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

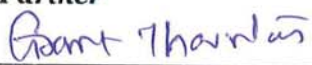
The Companies Act, 2012 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- 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 Jasmine Shah - P0241.



Jasmine Shah
Partner



Grant Thornton
Certified Public Accountants
Kampala, Uganda

2019

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Statement of Profit or Loss and Other Comprehensive Income

	<i>Notes</i>	2018 Shs '000	2017 Shs '000
Revenue	5	101,364,808	116,633,853
Cost of sales	6	(71,292,836)	(61,470,550)
Gross profit		30,071,972	55,163,303
Other income	7	521,473	198,591
Finance income	8	4,701,570	5,740,828
Finance costs	8	(1,365,383)	(1,094,294)
Distribution costs	9	(8,233,531)	(7,639,158)
Administrative expenses	10	(12,695,861)	(9,819,964)
Fair value (loss)/gain on green leaf	16	(125,881)	300,427
Fair value gain/(loss) on derivative financial instruments	19	434,382	(430,490)
Profit before income tax		13,308,741	42,419,243
Income tax expenses	12	(4,131,505)	(55,988)
Profit for the year		9,177,236	42,363,255
Other comprehensive income			
Re - measurements of retirement benefits obligation (Net of Tax)	24	(331,279)	(480,640)
Total comprehensive income for the year		8,845,957	41,882,615

Notes on **pages 10 to 37** form an integral part of the financial statements.

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Statement of Financial Position

	Notes	2018 Shs'000	2017 Shs'000
Assets			
Property, plant and equipment	14	82,474,785	63,920,691
Prepaid operating lease rentals	15	1,499,869	1,524,316
Biological assets	16	611,374	737,255
Non-current assets		84,586,028	66,182,262
Current income tax	12	6,654,872	6,409,197
Inventories	17	36,002,296	25,858,469
Trade and other receivables	18	53,343,728	37,829,738
Derivative financial instruments	19	2,444,589	2,010,207
Cash in hand and at bank	20	500,249	1,338,715
Current assets		98,945,734	73,446,326
Total assets		183,531,762	139,628,588
Equity			
Share capital	21	41,630,540	41,630,540
Proposed dividend		8,000,000	-
Retained earnings		74,412,185	73,566,228
Total equity		124,042,725	115,196,768
Term loans	22	8,359,312	2,951,065
Deferred tax liabilities	23	9,759,134	8,427,135
Retirement benefit obligation	24	2,681,412	2,233,895
Non-current liabilities		20,799,858	13,612,095
Bank overdraft	20	26,420,711	2,092,199
Term loans	22	2,971,688	681,015
Trade and other payables	25	9,296,780	8,046,511
Current liabilities		38,689,179	10,819,725
Total equity and liabilities		183,531,762	139,628,588

The financial statements on pages 6 to 37 were approved for issue by the board of directors on April 12, 2019 and signed on its behalf by:

Director

Director

Notes on pages 10 to 37 form an integral part of the financial statements.

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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 2017					
At start of year		41630540	-	51,683,613	93,314,153
Total comprehensive income					
Profit for the year		-	-	42,363,255	42,363,255
Re-measurements of retirement benefit obligation	24	-	-	(480,640)	(480,640)
Total comprehensive income for the year		-	-	41,882,615	41,882,615
Transactions with owners					
Interim and final dividend for 2017		-	-	(20,000,000)	(20,000,000)
Total distribution to owners of Company		-	-	(20,000,000)	(20,000,000)
At end of year		41,630,540	-	73,566,228	115,196,768
Year ended 31 December 2018					
At start of year		41,630,540	-	73,566,228	115,196,768
Total comprehensive income					
Profit for the year		-	-	9,177,236	9,177,236
Re-measurements of retirement benefit obligation	24	-	-	(331,279)	(331,279)
Total comprehensive income for the year		-	-	8,845,957	8,845,957
Transactions with owners					
Proposed dividend		-	8,000,000	(8,000,000)	-
Total distribution to owners of Company		-	8,000,000	(8,000,000)	-
At end of year		41,630,540	8,000,000	74,412,185	124,042,725

Notes on pages 10 to 37 form an integral part of the financial statements.

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Statement of Cash Flows

	2018	2017
	Shs'000	Shs'000
Profit before income tax	13,308,741	42,419,243
<i>Adjustments for:</i>		
Interest income	(2,559,483)	(2,671,155)
Interest expense	1,168,169	849,034
Depreciation	4,838,496	4,700,845
Loss on disposal of property, plant and equipment	119,426	943,006
Amortisation of prepaid operating lease rentals	82,364	81,773
Loss/(gain) on fair valuation of biological assets	125,881	(300,427)
(Gain)/loss on fair valuation of derivative financial instruments	(434,382)	430,490
Movement in retirement benefit obligations	447,517	410,354
Re-measurements of retirement benefits obligation	(473,255)	(686,629)
<i>Changes in working capital:</i>		
- Trade and other receivables	2,979,268	701,560
- Inventories	(10,143,827)	(5,292,572)
- Trade and other payables	1,250,269	(959,145)
Cash generated from operations	10,651,267	40,626,377
Interest paid	(1,168,169)	(849,034)
Income tax paid	(2,903,204)	(6,154,815)
<i>Net cash generated from operating activities</i>	6,637,811	33,622,528
Cash flows from investing activities		
Purchase of property, plant and equipment	(23,523,222)	(10,770,967)
Additions to prepaid operating lease	(57,917)	-
Proceeds on disposal of property, plant and equipment	11,205	2,542
Net loan given	(18,493,258)	(7,278,279)
Interest received	2,559,483	2,671,155
<i>Net cash used in investing activities</i>	(39,503,709)	(15,375,549)
Cash flows from financing activities		
Net movements in term loans	7,698,920	3,632,080
Dividends paid	-	(20,000,000)
<i>Net cash from/(used in) financing activities</i>	7,698,920	(16,367,920)
Net changes in cash and cash equivalents	(25,166,978)	1,879,059
Cash and cash equivalent at the start of the year	20 (753,484)	(2,632,543)
Cash and cash equivalent at the end of the year	20 (25,920,462)	(753,484)

Notes on **pages 10 to 37** form an integral part of the financial statements.

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Notes

1 General information

McLeod Russel Uganda Limited (“the Company”) is incorporated in Uganda under the Companies Act, 2012 as a private limited liability company, and is domiciled in Uganda. The Company was incorporated on November 23, 1993.

The address of its registered office is:
PO Box 371, Fort Portal, Uganda.

For Companies Act, 2012 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

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 consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). 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”), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in **Note 3**.

2 Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures

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

a) Foreign Currency Transactions and Advance Consideration

The interpretation applies to circumstances when an entity has either paid or received an amount of consideration in advance and in a foreign currency, resulting in a non-monetary asset or liability being recognised. The specific issue addressed by the interpretation is how to determine the date of the transaction for the purposes of determining the exchange rate to use on the initial recognition of the related asset, expense or income when the non-monetary asset or liability is derecognised. The interpretation specifies that the date of the transaction, for purposes of determining the exchange rate to apply, is the date on which the entity initially recognises the non-monetary asset or liability.

The effective date of the interpretation is for years beginning on or after January 1, 2018.

The Company has adopted the interpretation for the first time in the 2018 financial statements.

The impact of the amendment is not material.

b) Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after January 1, 2018.

The Company has adopted the amendment for the first time in the 2018 financial statements.

The impact of the amendment is not material.

c) IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely

Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(i) Standards and interpretations effective and adopted in the current year (Continued)

payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after January 1, 2018.

The Company has adopted the standard for the first time in the 2018 financial statements.

The impact of the amendment is not material.

d) IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(i) Standards and interpretations effective and adopted in the current year (Continued)

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after January 1, 2018.

The Company has adopted the standard for the first time in the 2018 financial statements.

The impact of the standard is not material.

(ii) New standards and interpretations not yet effective

	Effective date on or before	Expected impact:
Uncertainty over Income Tax Treatments	1 January 2019	Unlikely there will be a material impact
IFRS 16 Leases	1 January 2019	Impact is currently being assessed

2 Summary of significant accounting policies (continued)

(e) Revenue : IFRS 15

Policy applicable from January 1, 2018

Revenue arises mainly from manufacturing tea.

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

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

The often enters into transactions involving a range of the Company's products and services. In all cases, the 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.

Sales of tea

Revenue from the sale of tea 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 customised 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.

Policy applicable prior to January 1, 2018

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

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 amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. 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 from the export of made tea in auction is recognised when confirmation of sale is received from the tea broker, or in the case of direct sales, when the tea is loaded on the vessel and bill of lading issued.

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2 Summary of significant accounting policies (continued)

(f) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Uganda Shilling (Shs) which is the Company's functional currency.

(b) Transactions and balances

Transactions in foreign currencies during the year are converted into Uganda Shillings at the monthly exchange rates as declared by the Uganda Revenue Authority during the month in which they occur. Assets and liabilities at the balance sheet date 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 year in which they arise. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income' or 'other expenses'

(g) Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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 assets	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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 or loss. When revalued assets are sold, the amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2 Summary of significant accounting policies (continued)

(i) Biological assets

Agricultural produce growing on bearer plants (i.e. Green leaf shoots) are measured at fair value.

(j) Inventories

Inventories are stated at the lower of cost or net realisable value with appropriate provision for old and slow moving items. The cost of inventories is assigned using:

- Raw material and consumables - at weighted average cost
- Working in progress and finished goods - at weighted average cost

The cost of finished goods and work in progress includes raw materials, direct labour, other direct costs and related production overheads.

Net realisable value is the estimate of the average selling price in the ordinary course of business, less the costs of completion and selling expenses.

Management reviews usage report or physical verification report for inventory to determine which items should be disposed of or provision for obsolete items is made. Management determines likely sale price of the obsolete items, these prices are subtracted from book value of obsolete items and provision for obsolete is recorded in the books.

(k) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount of the obligation can be made.

(l) Employee benefits

i) Pension obligations

The Company has a defined benefit scheme under which gratuity is payable to Ugandan nationals after completion of five years' service upon resignation, retirement or termination and on condition that the employee leaves honourably. The gratuity is calculated at twenty working days per year of service for employees with five to ten years' service and thirty working days per year of service for those with more than ten years' service. The amounts are charged to profit or loss in the period to which they relate. The employee benefits are payable when an employee's employment is terminated or on retirement.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss.

The Company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently 10% of the employees' gross salary. The Company's contributions are charged to the profit or loss in the period to which they relate.

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2 Summary of significant accounting policies (continued)

ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the end of the reporting period is recognised as an expense accrual.

(m) Income 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.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Uganda Income Tax Act. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the statement of financial position 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.

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 neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position 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.

(n) Financial instruments: IFRS 9

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

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.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

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2 Summary of significant accounting policies (continued)

(n) Financial instruments: IFRS 9 (continued)

In the periods presented the corporation does not have any financial assets categorised as FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other operating expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost.

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial assets at fair value through other comprehensive income (FVOCI)

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2 Summary of significant accounting policies (continued)

(n) Financial instruments: IFRS 9 (continued)

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new 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.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables

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.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Company's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

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.

2 Summary of significant accounting policies (continued)

(n) Financial instruments: IFRS 9 (continued)

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 or 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.

Finance income and finance costs

Policy applicable from January 1, 2018

The Company's finance income and finance costs include:

- Interest income;
- Interest expenses;
- Dividend income;
- the net gain or loss on the financial assets at FVTPL; and
- foreign currency gain or loss on financial assets and financial liabilities

Interest income or expenses is recognised using the effective interest method.

The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial assets; or
- the amortised cost of the financial liability

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Policy applicable prior to January 1, 2018

Interest income is recognised on a time proportion basis using the effective interest method.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(o) Derivative financial instruments

Policy applicable from January 1, 2018

Classification

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

2 Summary of significant accounting policies (continued)

Financial instruments: IFRS 9 (continued)

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

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.

Policy applicable prior to January 1, 2018

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise

Derivatives are classified as financial assets at fair value through profit or loss - held for trading

(p) 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.

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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.

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.

(q) 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.

(r) 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.

3 Critical accounting estimates and judgements

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.

Fair value estimates

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

A valuation committee was established in order to determine the appropriate valuation techniques and inputs for each valuation. The committee reports to the director. Significant valuation issues are reported to the audit committee.

Observable market data is used as inputs to the extent that it is available.

Useful lives of property and equipment

Management reviews the useful lives and residual values of the items of property and equipment on a regular basis.

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

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.

Lease classification

The Company is party to leasing arrangements, both as a lessee and as a lessor. The treatment of leasing transactions in the financial statements is mainly determined by whether the lease is considered to be an operating lease or a finance lease. In making this assessment, management considers the substance of the lease, as well as the legal form, and makes a judgement about whether substantially all of the risks and rewards of ownership are transferred.

Retirement benefit obligations

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

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Income taxes

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.

Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market driven changes that may reduce future selling prices.

Fair value measurement

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 (**note 16 & 19**).

4 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 2018, 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 354 million (2017: Shs 922 million) higher/lower, mainly as a result of US dollar denominated receivables, trade payables and bank balances.

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4 Financial risk management objectives and policies (continued)

(ii) 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 2018, 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 200 million and Shs 5 million (2017: Shs 128 million and Shs 15 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.

	2018	2017
	Shs'000	Shs'000
Past due but not impaired:		
- by up to 30 days	25,855	555,745
- between 31 to 60 days	260,431	640,504
- between 61 to 180 days	103,143	922,887
- more than 180 days	292,125	-
	681,544	<u>2,119,136</u>
Receivables individually determined to be impaired:		
Carrying amount before impairment loss	176,488	176,488
Impairment loss	(176,488)	<u>(176,488)</u>
Net carrying amount	<u>-</u>	<u>-</u>

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.

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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 2018				
Bank term loan	2,971,688	2,786,437	5,572,875	-
Bank loan overdraft	26,420,711	-	-	-
Trade and other payables	9,296,781	-	-	-
	38,689,180	2,786,437	5,572,875	-
At 31 December 2017				
Bank term loan	681,015	2,724,060	227,005	-
Bank loan overdraft	2,092,199	-	-	-
Trade and other payables	8,046,511	-	-	-
	10,819,725	2,724,060	227,005	-

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.

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 net debt. The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 Shs'000	2017 Shs'000
Total borrowings – Term loan and bank overdraft	37,751,711	5,724,279
Less: cash at hand and in bank	(500,249)	(1,338,715)
Net debt	37,251,462	4,385,564
Total equity	124,042,725	115,196,768
Gearing ratio	0.30	0.04

Fair value

The Company's financial assets and liabilities that are measured at fair value at 31 December 2018 are set 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.

	2018 Shs'000	2017 Shs'000
Derivative financial asset	2,444,589	2,010,207

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5 Revenue	2018	2017
	Shs '000	Shs '000
Export auction	75,489,386	86,919,013
Export direct sales	25,214,833	29,623,661
Local sales	660,589	91,179
	<u>101,364,808</u>	<u>116,633,853</u>
<p>All sales revenue is derived from the sale of made tea. The quantity of made tea sold during the year was 16,853 tonnes (2017: 16,249 tonnes).</p>		
6 Cost of sales		
Purchase of green leaf	19,380,937	15,615,096
Field expenses	6,516,493	6,398,895
Harvesting and collection	4,395,572	4,367,607
Power and fuel	9,519,871	8,236,411
Repair and maintenance	3,102,821	3,809,252
Inter estate leaf transport	-	560
Salary, wages and other expenses (note 11)	17,897,972	15,918,424
Packing materials	1,401,551	1,065,464
Depreciation	4,513,032	4,426,662
Changes in inventories of finished goods	(3,107,447)	(3,997,353)
Other expenses	7,672,034	5,629,532
	<u>71,292,836</u>	<u>61,470,550</u>
7 Other income		
Transmission pole sales	170,533	87,758
Gain on disposal of property, plant and equipment	11,205	2,542
Net foreign exchange gains on items other than borrowings, cash at bank and cash in hand	305,302	-
Miscellaneous income	34,433	108,291
	<u>521,473</u>	<u>198,591</u>
8 Finance (costs)/ income - net		
Finance income		
Interest income	2,559,483	2,671,155
Net foreign exchange gains on borrowings, cash at bank and in hand	2,142,087	3,069,673
	<u>4,701,570</u>	<u>5,740,828</u>

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8 Finance costs / income - net (continued)	2018	2017
	Shs '000	Shs '000
Finance costs		
Interest expense	1,168,169	849,034
Other finance charges	197,214	190,141
Foreign exchange loss	-	55,119
	<u>1,365,383</u>	<u>1,094,294</u>
9 Distribution cost		
Transport	4,966,052	4,633,688
Storage	2,165,347	1,689,679
Brokerage	573,846	697,093
Others	528,286	618,698
	<u>8,233,531</u>	<u>7,639,158</u>
10 Administrative expenses		
Employees salaries and others (note 11)	4,255,657	4,427,676
Insurance	359,599	368,019
Repair and maintenance	(17,057)	94,222
Travelling expense	524,260	434,545
Management fees	3,475,899	1,098,912
Auditors remuneration	160,299	154,461
Other expenses	3,387,539	1,940,625
Depreciation, amortization and write off	549,665	1,301,504
	<u>12,695,861</u>	<u>9,819,964</u>
11 Employee benefits expenses		
The following items are included within employee benefits expense:		
Salaries and wages	19,654,861	17,936,504
National Social Security Fund contributions	1,975,068	1,857,976
Gratuity (note 24)	523,700	551,620
	<u>22,153,629</u>	<u>20,346,100</u>
Employee benefits expenses are classified under;		
Cost of sales	17,897,972	15,918,424
Administrative expenses	4,255,657	4,427,676
	<u>22,153,629</u>	<u>20,346,100</u>

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12 Income tax expenses	2018	2017
	Shs'000	Shs'000
Current income tax	2,657,529	-
Deferred income tax (note 23)	1,473,976	55,988
Income tax expense	4,131,505	55,988
Profit before income tax	13,308,741	42,419,243
Tax calculated at the statutory income tax rate of 30% (2017:30%)	3,992,622	12,725,773
<i>Tax effects of:</i>		
- Expenses not deductible for tax purposes	138,883	163,506
- Income not subject to tax-Export sales related	-	(6,290,038)
- Recognition of derecognised deferred tax	-	(6,543,253)
Income tax (expense) / credit	4,131,505	55,988
The movement in current income tax recoverable was as follows		
At start of the year	6,409,197	254,382
Charge to the statement of comprehensive income	(2,657,529)	-
Tax paid	2,903,204	6,154,815
At end of year	6,654,872	6,409,197

13 Dividends

During the year, a dividend of Shs 8 billion has been proposed (2017: Shs 20 billion was declared). Payment of dividends is subject to withholding tax at rates depending on the tax status of the recipient.

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14 Property, plant and equipment	Buildings & leasehold improvements	Bearer plant - Tea	Bearer plant - Forest	Plant and machinery	Vehicles and equipment	Capital work-in-progress	Capital goods-in-transit	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Cost								
At 1 January 2017	22,277,516	23,142,090	4,375,751	58,090,037	3,540,038	3,669,653	-	115,095,085
Additions	649,706	1,262,425	506,436	5,746,030	851,224	1,299,139	456,007	10,770,967
Disposals	-	-	-	-	(39,701)	-	-	(39,701)
Transfer	270,024	-	-	602,078	2,458	(874,560)	-	-
Write-off	(1,225,849)	-	-	(16,135,802)	(1,101,457)	-	-	(18,463,108)
At 31 December 2017	21,971,397	24,404,515	4,882,187	48,302,343	3,252,562	4,094,232	456,007	107,363,243
At 1 January 2018	21,971,397	24,404,515	4,882,187	48,302,343	3,252,562	4,094,232	456,007	107,363,243
Additions	257,739	1,255,499	941,050	2,417,836	384,056	13,511,651	4,755,389	23,523,220
Disposals	-	-	-	-	-	-	-	-
Transfer	221,921	-	-	1,261,827	12,032	(1,495,780)	-	-
Write-off	(7,895)	-	-	(382,927)	(2,336)	-	-	(393,158)
At 31 December 2018	22,443,162	25,660,014	5,823,237	51,599,079	3,646,314	16,110,103	5,211,396	130,493,305
Accumulated depreciation								
At 1 January 2017	6,833,691	5,896,854	1,589,382	38,817,299	3,161,742	-	-	56,298,968
Charge for the year	425,549	647,077	271,724	3,070,132	286,364	-	-	4,700,846
On disposals	-	-	-	-	(39,701)	-	-	(39,701)
On write-off	(926,424)	-	-	(15,513,555)	(1,077,582)	-	-	(17,517,561)
At 31 December 2017	6,332,816	6,543,931	1,861,106	26,373,876	2,330,823	-	-	43,442,552
At 1 January 2018	6,332,816	6,543,931	1,861,106	26,373,876	2,330,823	-	-	43,442,552
Charge for the year	434,169	445,934	230,596	3,346,309	381,488	-	-	4,838,496
On disposals	-	-	-	-	-	-	-	-
On write-off	(5,813)	-	-	(254,784)	(1,931)	-	-	(262,528)
At 31 December 2018	6,761,172	6,989,865	2,091,702	29,465,401	2,710,380	-	-	48,018,520
Carrying amount								
At 31 December 2017	15,638,581	17,860,584	3,021,081	21,928,467	921,739	4,094,232	456,007	63,920,691
At 31 December 2018	15,681,990	18,670,149	3,731,535	22,133,678	935,934	16,110,103	5,211,396	82,474,785

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15 Prepaid operating lease	2018	2017
	Shs '000	Shs '000
Cost:		
As at 1 January	2,661,865	2,661,865
Add: Additions	57,917	-
Less: Written-off	(50,000)	-
	<u>2,669,782</u>	<u>2,661,865</u>
Amortisation:		
As at 1 January	(1,137,549)	(1,055,776)
Charge for the year	(82,364)	(81,773)
Written-off	50,000	
	<u>(1,169,913)</u>	<u>(1,137,549)</u>
Net carrying amount as at 31 December	<u>1,499,869</u>	<u>1,524,316</u>
16 Biological assets		
Valuation of green leaf shoots:		
At beginning of year	737,255	436,828
Changes in valuation of green leaf shoots	(125,881)	300,427
At the end of the year	<u>611,374</u>	<u>737,255</u>
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.		
17 Inventories		
Finished goods	18,666,796	15,559,348
Consumable stores	17,206,729	10,814,568
Provision for obsolete and slow moving stock	(2,658,194)	(958,965)
	<u>33,215,331</u>	<u>25,414,951</u>
Goods in transit	2,375,739	83,319
Tea nurseries	411,226	360,199
	<u>36,002,296</u>	<u>25,858,469</u>

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18 Trade and other receivables	2018	2017
	Shs '000	Shs '000
Trade receivables	1,861,487	3,847,526
Prepayments and other receivables	5,331,418	6,560,806
Less provision for other receivables	(176,488)	(176,488)
Due from related companies (note 28)	46,327,311	27,597,894
	<u>53,343,728</u>	<u>37,829,738</u>
19 Derivative financial instruments		
At start of year	2,010,207	2,440,697
Fair value gain/(loss)	434,382	(430,490)
Derivative asset	<u>2,444,589</u>	<u>2,010,207</u>
<p>The Company has adopted a policy of managing its exchange rate exposure by entering into forward contracts for the sale of US Dollar revenue receipts in exchange of Uganda shillings at regular intervals throughout the year. The derivative asset at the reporting date is a result of marking to market of the open forward contracts at year-end. The gross contractual nominal amount of outstanding foreign exchange contracts as at 31 December 2018 is US\$ 7.8 million (2017: US\$ 9 million).</p>		
20 Cash in hand and at bank		
Cash in hand	228,424	436,576
Cash at bank	271,825	902,139
	<u>500,249</u>	<u>1,338,715</u>
Bank overdraft	<u>26,420,711</u>	<u>2,092,199</u>
Refer note 22 for terms applicable to the overdraft facilities.		
21 Share capital	2018	2017
Issued number of shares	8,326,108	8,326,108
Share Capital (Shs '000)	<u>41,630,540</u>	<u>41,630,540</u>
<p>The authorised number of ordinary shares is 8,326,108 with a value of Shs 5,000 per share. All issued shares are fully paid.</p>		
22 Term loans	2018	2017
	Shs'000	Shs'000
Non-current portion		
Term loan	8,359,312	2,951,065
Current portion		
Term loan	2,786,438	681,015
Interest accrued on Term Loan	185,250	-
	<u>2,971,688</u>	<u>681,015</u>
Total	<u>11,311,000</u>	<u>3,632,080</u>

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22 Term loans (continued)

These borrowings consist of different facilities from various banks as under;

Banks	Barclays Bank (U) Limited	Standard Chartered Bank (U) Limited	Stanbic Bank (U) Limited
Facility	Term Loan and overdraft	Overdraft	Overdraft
Limit	Term Loan of US\$ 3 million Overdraft of US\$ 3 million	Overdraft of Shs 1.2 billion and US\$ 3 million	Overdraft of US\$ 2 million
Purpose	Construction new factory premises and working capital	Working capital requirement	Working capital
Rate of interest	Base rate plus 3 months LIBOR	Base Rate plus 3 months LIBOR for USD borrowing and Base rate plus 91 day Treasury bill rate for Shs borrowing	Base rate plus 3 months LIBOR
Repayment	One year moratorium and then repayable in 4 years	Repayable on demand	Repayable on demand
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, Bugahya, Kisita, Hoima and Bunyoro, registered in the name of the Company	Legal charge over LRV 546 folio 17, LRV 569 folio 13 & 14 at Tororo and Debenture charge over fixed and floating assets of the Company	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

23 Deferred tax liabilities

	2018	2017
	Shs'000	Shs'000
At start of year	8,427,135	8,577,136
Charge to profit and loss account (note 12)	1,473,976	55,988
Tax effect of re-measurements of retirement benefits obligations	(141,977)	(205,989)
At end of year	9,759,134	8,427,135

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 30% (2017: 30%). The movement on the deferred tax account is as follows:

	2018	2017
	Shs '000	Shs '000
At start of year	8,427,132	8,577,136
Charge to profit and loss account (note 12)	1,473,979	55,988
Tax effect of re-measurements of retirement benefits obligations	(141,977)	(205,989)
At end of year	9,759,134	8,427,135

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23 Deferred tax liabilities (continued)

	2018	2017
	Shs '000	Shs '000
At beginning of year	(8,427,132)	(8,577,136)
Taxable temporary difference movement on tangible fixed assets	(968,835)	(277,957)
Taxable temporary difference on retirement benefit	(20,307)	123,106
Taxable / (deductible) temporary difference on forex fluctuations	380,435	147,202
Taxable / (deductible) temporary difference on provisions	134,255	216,893
Increase (decrease) in tax losses available for set off against future taxable income	(92,551)	764,996
(Deductible) temporary difference on fair valuation	(764,996)	(824,238)
	<u>(9,759,134)</u>	<u>(8,427,133)</u>

24 Retirement benefit obligation

Liability in the statement of financial position	2,681,412	2,233,895
Charge to profit or loss	523,700	551,620
Re-measurement - Actuarial (gains)/losses for the year	473,255	686,629

The movement in the retirement benefit obligation is shown below:

At start of year	2,233,895	1,823,541
Current service cost	180,844	159,042
Interest cost	342,856	229,763
Benefits paid during the period	(549,438)	(665,080)
Re-measurements- actuarial (gains)/ losses for the year	473,255	686,629
At end of year	<u>2,681,412</u>	<u>2,233,895</u>

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24 Retirement benefit obligation (continued)

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

Description	Assumption
Mortality	SA (85-90)
Retirement age	55 years
Discount rate	Years 1-5 – 16.9%
	Years 5-10 - 17.2%
	Years 10-15 - 17.5%
	Years >15 – 18.41%
Salary escalation	7.57% 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 5.90%	Decrease by 6.56%

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	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 31 December 2018:					
Gratuity benefits	181,855	147,170	1,662,217	120,495,117	122,486,360
At 31 December 2017:					
Gratuity benefits	186,973	181,611	999,191	97,610,463	98,978,238

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25 Trade and other payables	2018	2017
	Shs'000	Shs'000
Trade Payables	2,769,202	2,001,699
Amounts due to related parties	1,509,091	759,380
Other payables	5,018,487	5,285,432
	<u>9,296,780</u>	<u>8,046,511</u>

26 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.

27 Capital commitments

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

	2018	2017
	Shs'000	Shs'000
Property, plant and equipment	1,878,573	1,866,346

28 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	2018	2017
	Shs'000	Shs'000
McLeod Russel India Limited - management fees (excluding VAT)	558,900	870,477
McLeod Russel India Limited - reimbursement of expenses	203,391	-
Borelli Tea Holdings Limited - license fee (excluding VAT)	2,248,815	-
Pfunda Tea Company Limited - reimbursement for expenses	-	389
Gisovu Tea Company Limited - purchase of items	51,251	308
McLeod Russel Africa Limited - brokerage	427,139	520,216
	<u>3,489,496</u>	<u>1,391,390</u>

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	2,596,210	1,876,189
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28 Related party transactions (continued)	2018	2017
iii) Sales of goods	Shs'000	Shs'000
McLeod Russel Africa Limited	100,266	92,909
Gisovu Tea Company Limited – Reimbursement for expenses	20,980	25,974
Pfunda Tea Company Limited – Reimbursement for expenses	21,165	24,898
McLeod Russel Middle East – Interest on delayed payment	10,463	-
McLeod Russel Middle East	2,512,819	2,397,506
	<u>2,665,693</u>	<u>2,541,287</u>

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

Amounts due from related parties

Borelli Tea Holdings Limited - loan	45,697,575	26,514,184
Borelli Tea Holdings Limited – interest receivable	-	690,132
McLeod Russel Middle East	620,448	382,699
Pfunda Tea Company Limited	9,288	4,613
Gisovu Tea Company Limited	-	6,265
	<u>46,327,311</u>	<u>27,597,893</u>

Amounts due to related parties

McLeod Russel India Limited	203,391	544,812
Gisovu Tea Company Limited	30,271	-
McLeod Russel Africa Limited	20,293	214,568
	<u>253,955</u>	<u>759,380</u>

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

29 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.