

The logo for TATEPA, featuring the word "TATEPA" in a bold, white, sans-serif font inside a dark green rounded rectangular border.

**TATEPA**

**TANZANIA TEA PACKERS LIMITED**

A close-up photograph of a tea plant branch with several green leaves and buds, set against a blurred background of more tea plants.

**Annual Report 2010**





TANZANIA TEA PACKERS LIMITED



ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010



## **Table of contents**

## **Page No**

Chairman's Statement

4 - 6

Financial Review

7

Directors' report

9 -16

Statement of directors' responsibilities

17

Report of the independent auditor

18 - 19

### *Financial statements:*

Profit and loss accounts

20

Balance sheets

21

Statements of changes in equity

22

Cash flow statements

23

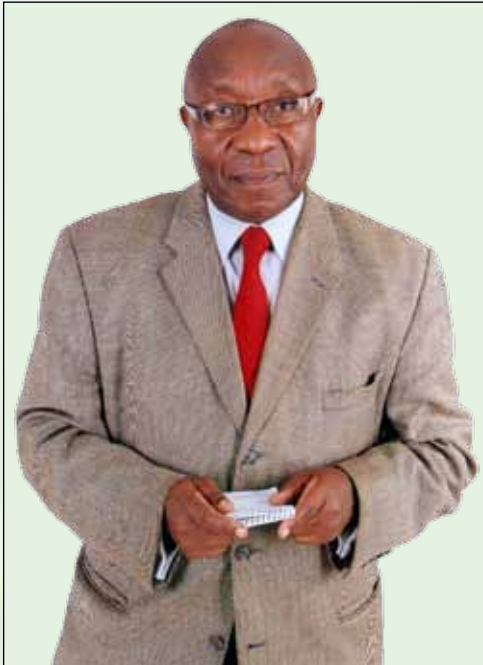
Notes

24 - 58





## CHAIRMAN'S STATEMENT



### Overview

2010 was a year of consolidation for your Group, a year during which we maintained focus on the development of our primary agricultural interests, whilst increasing our work on smallholder initiatives.

Profits improved from the performance reported in 2009, but nonetheless only a break-even was achieved as the continuing development expenditures depressed. The Group results, albeit to a lesser extent than originally projected. On the more challenging side, some of the issues which we reported last year continued to affect production, resulting in the on-going closure of the new Mwakaleli factory. The impact remains significant despite the strongly positive role played by Government and Wakulima Tea Company Limited. Both parties continue to work together to seek solutions to the issues.

Like 2009 before it, 2010 was a year of great development in terms of your Company's commitment to smallholder empowerment and green agri- business. The year saw us sell a further 5% of Wakulima Tea Company to the Rungwe Smallholders Tea Growers' Association (RSTGA) and on top of that, but also as a part of it, we

are implementing a program to assist RSTGA in their management capability. As part of this, we are close to finalising a joint project with donors to provide smallholder inputs as well as training to assist smallholders in their requirement of both enhanced income and achieving the coveted Rain Forest Alliance status.

The year also saw continuing progress at the exciting Rungwe Avocado Company (RACL), Tanzania's first mainstream avocado producer, as well as further development on the Suma Hydro and new Tea Packing projects.

### Dividends

All our development plans will continue to have an impact on dividends and as flagged last year, your Company does not anticipate paying dividends for at least the next two years as these plans roll out. Indeed it was gratifying to see an above budget performance in 2010 thanks to our roots in tea which we continue to expand, as well as planning a move back into tea packing.

### Wakulima Tea Company Limited

Wakulima Tea Company Ltd put in an exciting performance in difficult circumstances in 2010, returning a profit of Tsh 571m against an initial target of Tsh 139m. Your Board remains positive about the World Tea Market for three main reasons; firstly, historical stockpiles, which at one point were in excess of 100 thousand tons, have now been wiped out by the long-term Kenyan drought, leaving the world packing market slightly short of stock; secondly, costs in Kenya continue to rise, effectively putting a downward limit on prices; and thirdly there is an underlying upward trend in global tea consumption.

Consequently a long term positive tea price is now a distinct possibility. Therefore we are confident that, going forward, these factors will have a positive impact on demand for Tanzanian tea, and that this will help to shore up the world tea market in this forthcoming year, which has indeed, once again, started positively. Our concerns for Wakulima centres around production and despite the strong positive support from both local and central Government players, the disharmony in the Rungwe District continues to affect production. Robust solutions must be found to avoid a repeat of the experience in other tea smallholder Districts that so badly impacted smallholders' livelihoods in those locations.



## **CHAIRMAN'S STATEMENT (continued)**

### **The Smallholder**

Access to cash is the oxygen that breathes life into tea production, particularly for our smallholders. Mindful of this, and our responsibility to smallholders, your Company raised the green leaf price to the smallholder from Tsh 135/- to Tsh 160/- in 2010, and then raised it again effective January 2011 to Tsh 184/-, resulting in an overall increase in revenues to smallholders of 36%.

Smallholders are at the heart of the TATEPA philosophy and your Company is proud of its efforts to ensure that its smallholders are paid well for producing good quality tea. In addition to this Wakulima also funds the management of extension services and training for smallholders to the tune of over 500 million shs p.a. and provides on credit inputs such as fertiliser, herbicides and shears for mechanical harvesting. In the current year we also took over the management of all tea green leaf collection in order to improve efficiency and quality. The focus this year is on the continuation of these programmes and the attainment of both the coveted ISO 22000 and the Rain Forest Alliance certifications.

Your Company has also continued to strengthen its social responsibility efforts. One of the greatest obstacles to people getting access to HIV AIDS treatment and information is transportation; with a dispersed population and scattered far from urban centres it is expensive and time-consuming for rural communities to reach treatment and information centres. In a joint collaboration with GTZ, Egmont Trust, Champion and RSTGA, TATEPA has initiated a transportation scheme to alleviate this obstacle. In addition we continue with our support to the RSTGA [the smallholder body] and to education, health and clean water projects. Your company continues to strengthen its commitment to environmental good governance, and remains Tanzania's first and only tea producer to earn the enviable HACCP quality control accreditation as well as being Fair Trade certified.

Last year I reported that one of the major highlights was the opening of the Mwakaleli factory but sadly I also had to report its subsequent closure because of the conflict and intimidation amongst other smallholder grower groups in the Rungwe area. This modern, US\$3million facility, set to produce the highest quality tea in Tanzania, must now remain closed in 2011 and I report this with a heavy heart because no-one has benefited by this unrest, least of all the individual out grower farmer.

### **A Return to our Roots**

On a more positive and exciting note, I can now report that 2011 will see the return of Tatepa to tea blending and packaging with our subsidiary Wakulima Tea Company Limited now being in the final stages of completing a 51% investment in a new tea packing business for Tanzania. Operations will commence in Dar es Salaam by the 3rd quarter of 2011 with profitability expected by the second full year of operations. This initiative returns your Company to its other core competence and is an exciting use of our management resource and knowledge. Concentration will be on the mass market with Tatepa once again aiming to produce a wholesome, healthy product available to all.

### **Rungwe Avocado Company Limited**

Rungwe Avocado Company Limited is perhaps the Group's most exciting initiative, and is expected to become a major player in the world avocado market, selling approximately 20 million avocados annually by 2015. In late 2010 with the support of The African Enterprise Challenge Fund (AECF) we commenced the construction of a \$2m state of the art packing shed, the first of its kind in Tanzania. This will be completed in mid 2011 and will allow Rungwe Avocado Company Limited to export avocados of a "First World" Quality standard. It remains our ambition that the company will turn over in excess of US\$5 million within the next 5-6 years, and will net over US\$2 million in profit at maturity in 10 years or so.

The Global Market in avocados continues to grow strongly despite rising production world wide, and prices remain strong for our class of product.



## CHAIRMAN'S STATEMENT (continued)

In Rungwe, the fruit grows naturally and fortunately has a very favourable sales window to the global market, with its harvest between March and May which is a low production season for other parts of the world. We have a marketing arrangement with the United Kingdom's largest fresh fruit distributor for onward sale to Marks & Spencer and Tesco (the UK's biggest supermarket chain) and have already started exporting at favourable prices. The challenge now is to ensure the establishment of an efficient transport link by road and sea to Europe through Dar es Salaam, Mombasa or Cape Town and our initial trials have been very positive. Rungwe Avocado Company Limited has started its own commercial plantations which will account for circa 40% of production, but is particularly proud of its work with smallholders and with the success in the uptake of new seedlings by smallholders of the Hass variety which is double our previous estimates.

Although production commenced in 2007, it will take time for the business to mature and it is expected to make continuing losses of approximately US\$600,000 in 2011 as the project develops. 2012 though still a loss, will see this figure reducing, with 2013 heralding our first profitable year "ceteris paribus".

### Small Hydro Power

Finally regarding the Suma Hydro-electricity project I am pleased to report that detailed feasibility consultancy is now complete and it is hoped that the necessary environmental approvals and financing will be finalised in 2011, and that the project can commence towards the end of 2011.

### Long Term Debt

In respect to Company financing, the Term Loan from CRDB to Wakulima Tea Company Limited for Mwakaleli development was reduced in 2010 to US\$1.5m from \$2m, but a new loan of a further US\$1m was obtained to finance a "Green Leaf" collection fleet for our smallholders. Therefore Wakulima Tea Company's Secured Long Term debt is \$2.5m against an asset value at last valuation of over \$10m. Your Company is pleased to be currently financing the avocado project out of group profits and the AECF repayable grant facility but anticipates additional funding from a new environmental development facility being established by the African Wildlife Foundation (AWF).

Currently there are no expectations for a call on shareholders to assist with any financing, although this could happen if the anticipated AWF funding does not materialise and/or the world tea market does not perform as expected. Although the avocado project is denying shareholders' dividend for the next two years, it will develop into a very exciting and profitable new business. It will also provide you and your Company with a good hedge against tea and a robust diversification initiative.

### Conclusion

As I touched on at the beginning of this statement, your Company's activities are underpinned by a commitment to empowering smallholder farmers and making agriculture greener. The Company's three new initiatives, the launch of Rungwe Avocado Company Ltd; our return to our tea packing roots; and the harnessing of energy from water, provide strong synergies with its existing tea interests, and continue to make TATEPA a company we should be proud to be part of.

Once again, I would like to express my gratitude to all my colleagues in the Board of Directors of TATEPA and to the management and staff of our management company (Tanganyika Finance Company Limited), for their commitment, vision and entrepreneurial flair that continue to ensure our Company is at the forefront of agricultural development in Tanzania.

Joseph J Mungai <sup>rtd</sup> MP  
**Board Chairman**

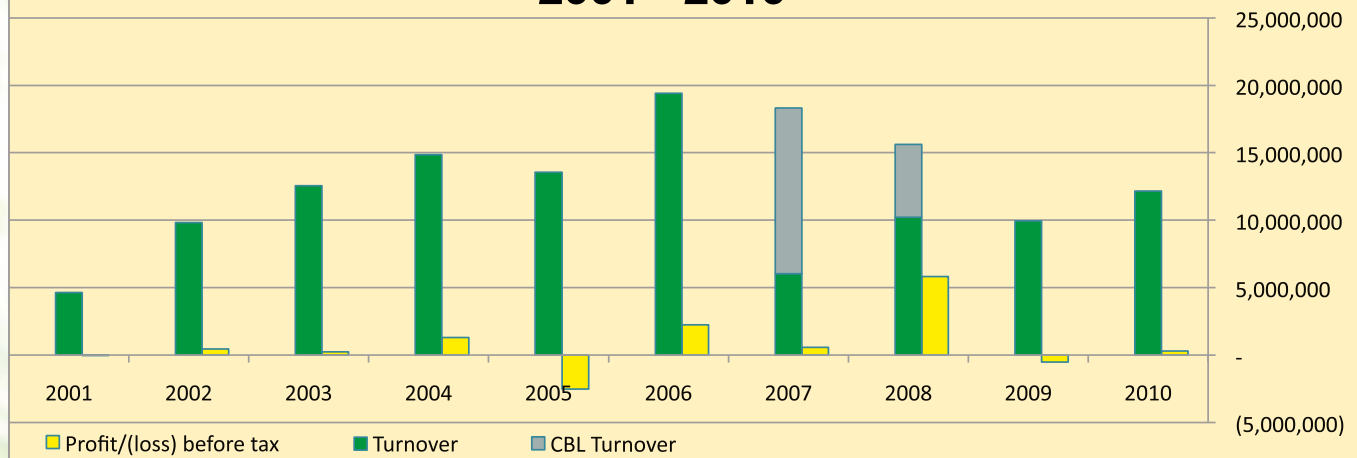


## FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Group	Group	Group	Group	Group	Group	Group	Group	Group	Group
	TZs'000'	TZs'000'	TZs'000'	TZs'000'	TZs'000'	TZs'000'	TZs'000'	TZs'000'	TZs'000'	TZs'000'
Turnover										
Continuing Operations	12,152,841	9,947,794	10,225,170	6,041,186	19,415,363	13,549,011	14,857,485	12,545,159	9,812,547	4,641,777
Discontinued Operations	-	-	5,391,086	12,271,844	-	-	-	-	-	-
Group turnover	12,152,841	9,947,794	15,616,256	18,313,030	19,415,363	13,549,011	14,857,485	12,545,159	9,812,547	4,641,777
Profit/(Loss) Before Taxation										
From continuing operations	292,439	(503,756)	6,168,870	(1,592,600)	2,255,832	(2,505,233)	1,293,792	241,214	446,871	(29,470)
From Discontinued operations	-	-	(354,056)	2,166,350	-	-	-	-	-	-
Group profit / (loss) before taxation	292,439	(503,756)	5,814,814	573,750	2,255,832	(2,505,233)	1,293,792	241,214	446,871	(29,470)
Dividends	-	-	6,517,865	2,525,088	739,372	-	-	611,212	576,312	545,040
Cash Generated From Operations	747,906	573,828	947,866	2,731,108	2,643,798	(409,088)	1,892,712	1,749,971	1,414,353	(211,979)
Net Cash from Investment activities	(2,358,066)	(586,510)	5,845,631	1,202,456	(423,398)	(357,873)	(794,121)	(1,895,491)	(1,698,220)	(1,453,874)
Interest Bearing Debt	3,656,592	2,649,153	3,030,033	1,901,699	7,555,821	7,850,838	8,647,876	9,202,735	7,639,039	1,683,858
Earnings Per Share (Tzs)	(2)	(27)	294	(40)	120	(112)	73	15	33	(4)
Dividends Per Share (Tzs)	0	0	365	100	45	-	-	40	40	40

**Group Turnover & Profit (in Tshs'000)  
2001 - 2010**





## Index to the notes to the financial statements

Note	Page
1 General information	24
2 Summary of significant accounting policies	24 - 32
3 Critical accounting estimates and judgments	32
4 Financial risk management	32 - 35
5 Business and geographical segments information	35 - 40
6 Cost of sales	41
7 Other operating income	41
8 Selling and marketing costs	41
9 Administrative expenses	42
10 Staff related costs	42
11 Finance costs	42
12 Income tax expense	42 - 43
13 Earnings per share	43
14 Dividend per share	43
15 Property, plant and equipment	44 - 45
16 Biological assets	45 - 46
17 Investment in subsidiaries	46 - 47
18 Loans receivable	47 - 48
19 Inventories	48
20 Trade and other receivables	48 - 49
21 Loan receivable	49
22 Bank and cash balances	50
23 Trade and other payables	50
24 Borrowings	53
25 Bank overdraft	53
26 Deferred income tax liability	53 - 54
27 Employees gratuity	54
28 Commitments	55
29 Contingent liabilities	55
30 Share capital	56
31 Cash generated from operations	56
32 Related party transactions and balances	57 - 58



## **DIRECTORS' REPORT**

The Directors submit their report together with the audited financial statements for the year ended 31 December 2010, which disclose the state of affairs of Tanzania Tea Packers Limited (TATEPA or the "Company") and its subsidiaries ("the Group").

### **1. INCORPORATION**

The Company is incorporated in Tanzania under the Companies Act, CAP 212 Act No. 12 of 2002 as a public limited liability company.

### **2. GROUP VISION**

The Group's vision is to become Tanzania's premier "green" agricultural business, being both environmentally and commercially aware and giving fair returns to all stakeholders. The Group aims to deliver sustainable development, to develop businesses with smallholder partners and other stakeholders, and gradually to empower them to own these businesses.

### **3. COMPANY MISSION**

TATEPA's mission is to invest, develop and manage businesses with a core agricultural component that will deliver broad participation and benefits for all stakeholders. All businesses in which TATEPA invests will endeavour to be commercially, socially and environmentally sustainable and will pursue best practices in the management and development of their activities. TATEPA will participate in new ideas, start-ups, and development of effective regulations, logistics and other areas of Tanzanian agriculture where it can make a difference.

### **4. PRINCIPAL ACTIVITIES**

The Company owns a majority stake (70% of equity) in Wakulima Tea Company Limited (WTCL) (2009: 75%). It also owns a majority stake in Rungwe Avocado Company Limited (RACL) and at the year end the Company held 58.27% (2009: 57.43%) of the equity interest in RACL directly and 22.85% (2009: 22.52%) indirectly through WTC and hence an aggregate controlling interest of 74.27% (2009: 74.32%).

Wakulima Tea Company Limited undertakes the growing, processing and sale of tea in the local as well as the export markets. Exports are made through the Mombasa Auction as well as through private contracts. Rungwe Avocado Company Ltd undertakes the growing, packing and export of avocados.

During the year, the Company's principal activities continued to be investments and the financing of its subsidiaries.



## DIRECTORS' REPORT (continued)

### 5. COMPOSITION OF THE BOARD OF DIRECTORS

The Directors of the Company at the date of this report, all of whom have served since 01 January 2010 unless otherwise stated, are:

	Name	Position	Age/ Years	Qualifications	Nationality	Date of	
						Appointment	Resignation
1	Joseph J Mungai	Chairman	67	MPA (Master of Public Admin)	Tanzanian	09.06.2010	
2	George C Theobald	Member	52	BA –Economics	Tanzanian	09.06.2010	
3	Peter D Rowland	Member	56	Msc. Agric Eng. C. Eng	British	09.06.2010	
4	William Erio	Member	46	Masters of Law	Tanzanian	13.06.2008	22.03.2010
5	Stephen S Alfred	Member	41	BA (Economics) & Master of Business & Fin Admin)	Tanzanian	09.06.2010	
6	Keith Alexander	Member	55	B Sc., FCA.	British	09.06.2010	

The Company Secretary at the date of this report, who served in this capacity since 1 January 2010 was Mr.V. K.Tewari (Indian).

In accordance with the Company's Articles of Association, the directors are elected by the Shareholders in an Annual General Meeting, to hold office for a period of two years, after which they retire but are eligible for re-election. All the above present 5 directors were appointed in the Annual General Meeting held on 9 June 2010 for a period of two years.

All the directors are non-executive. The disclosures of directors' emoluments are set out in note 32 to the financial statements.

### 6. CORPORATE GOVERNANCE

The Board of TATEPA consists of five Directors, none of whom hold executive positions in the Company, however two of the directors, Mr. G C Theobald and Mr. Peter D Rowland are employees of the management company. The Board takes overall responsibility for the Company, including identification of key risk areas, considering and monitoring investment decisions, considering financially significant matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring the comprehensive systems of internal control policies and procedures are operating, and for compliance with sound governance principles.

The Board meetings are held at regular intervals (it met four times during the year 2010). The Board delegates the day to day management of the business of the Group to a corporate management and consultancy company, Tanganyika Finance Company Limited (TFC). Senior management of TFC is invited to attend board meetings and facilitates the effective control of all the Company's operational activities, acting as a medium of communication and coordination between all various business units.



## DIRECTORS' REPORT (continued)

### 6. CORPORATE GOVERNANCE (continued)

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

The Board of TATEPA has the following sub-committees to ensure a high standard of corporate governance throughout the Company and in all of its subsidiaries. Its meetings are held as necessary and as directed by the Board.

#### Audit Committee

	Name	Position	Qualifications	Nationality
1	Mr. K Alexander	Chairman	B Sc., FCA	British
2	Mr. G C Theobald	Member	BA – Economics	Tanzanian
3	Mr. P D Rowland	Member	Msc. Agric Eng. C. Eng.	British

The Audit Committee reports to the Board of Directors of the Company. The Audit Committee met once during the year.

#### Remunerations Committee

	Name	Position	Qualifications	Nationality
1	Hon J J Mungai	Chairman	MPA	Tanzanian
2	Mr K Alexander	Member	B Sc., FCA	British
3	Mr G C Theobald	Member	BA – Economics	Tanzanian

The Remuneration Committee reports to the Board of Directors of the Company. The Remuneration Committee met once during the year.

### 7. CAPITAL STRUCTURE

The Group and Company capital structures as at year end are as shown below

	Group		Company	
	2010 TShs '000	2009 TShs '000	2010 TShs '000	2009 TShs '000
Ordinary share capital	<b>446,429</b>	446,429	<b>446,429</b>	446,429
Share premium	<b>3,748,429</b>	3,748,429	<b>3,748,429</b>	3,748,429
Retained reserves	<b>277,689</b>	310,135	<b>270,896</b>	344,991
Total owners equity	<b>4,472,547</b>	4,504,993	<b>4,465,754</b>	4,539,849
Minority interests	<b>987,683</b>	818,696	-	-
Total equity	<b>5,460,230</b>	5,323,689	<b>4,465,754</b>	4,539,849
Borrowings	<b>5,508,908</b>	3,524,689	-	-



## DIRECTORS' REPORT (continued)

### 8. MANAGEMENT

The Management of the Company and that of its subsidiaries is organized via a management agreement with Tanganyika Finance Company Limited, a corporate management and consultancy firm incorporated in Tanzania. G C Theobald and P D Rowland are employed by this company as are all the management staff involved in managing the TATEPA Group.

### 9. SHAREHOLDERS OF THE COMPANY

The total number of shareholders at 31 December 2010 is 1,681 shareholders (2009:1,664 shareholders). Two of the directors had interests in the issued and fully paid up shares of the Company and details are provided below:

Name	Nationality	Number of ordinary share
Mr. J.J. Mungai (rtd MP)	Tanzanian	1,405,594 shares
Mr. G. C.Theobald	Tanzanian	1,138,475 shares

The shares of the Company are held as follows:

S/N	Name	Number of ordinary shares held	
		Current year	Prior year
1	Freshfields Investments Limited	<b>9,719,594</b>	9,719,594
2	Parastatal Pension Fund	<b>2,009,552</b>	2,009,552
3	J.J. Mungai (rtd MP)	<b>1,405,594</b>	1,405,594
4	Mr. G. C.Theobald	<b>1,138,475</b>	1,138,475
5	National Social Security Fund	<b>894,384</b>	894,384
6	Thompson Lloyd & Ewart Limited	<b>455,499</b>	455,499
7	Maj. General (rtd) James Luhanga	<b>309,739</b>	309,739
8	George PTheobald & Josephine MTheobald	<b>244,354</b>	244,354
9	Various others	<b>1,679,384</b>	1,679,384
	<b>Total</b>	<b>17,857,165</b>	<b>17,857,165</b>

### 10. STOCK EXCHANGE INFORMATION

In 1999 the Company was listed with the Dar es Salaam Stock Exchange (DSE).The share price as at the end of the year was TShs. 480 (2009: Tshs 490).The market capitalization as at 31 December 2010 was Tshs 8.5 bn. (2009: Tshs 8.7bn)



## DIRECTORS' REPORT (continued)

### 11. RESULTS AND DIVIDEND

<b>Company</b>	<b>2010 Actual TShs'000</b>	2010 Budgeted TShs'000	2009 Actual TShs'000
Profit on disposal of shares	<b>25,834</b>	49,411	-
Other operating income	<b>298,392</b>	352,126	382,831
Administrative expenses	<b>(368,388)</b>	(306,292)	(574,372)
(Loss) / profit before tax	<b>(44,162)</b>	42,120	(191,541)
<b>Group</b>			
Revenue- made tea	<b>12,132,645</b>	10,626,323	9,947,794
Revenue- avocado	<b>20,197</b>	113,453	-
Gross profit	<b>4,024,130</b>	3,248,761	2,960,123
Profit / (loss) before tax	<b>292,439</b>	(530,335)	(503,756)
<b>Group (Activity)</b>	<b>Tons</b>	Tons	Tons
Production - Made tea	<b>4,554</b>	4,435	4,450
Production and sales – Avocado	<b>15</b>	43	6
Revenue – Made tea sales	<b>4,778</b>	4,434	4,361

Considering the results for the year and financial position, the Company did not pay any dividend in 2010 (2009: nil), and the board is not recommending a dividend for 2010 (2009: nil).

### 12. PERFORMANCE FOR THE YEAR

The performance of Wakulima Tea Company Limited was much improved when compared to the 2010 budget due to better tea prices and improved production and sales volumes.

As an early stage start-up business Rungwe Avocado Company Limited performed in line with expectations.

### 13. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control systems of the Company. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- ❖ The effectiveness and efficiency of operations;
- ❖ The safeguarding of the Company's assets;
- ❖ Compliance with applicable laws and regulations;
- ❖ The reliability of accounting records;
- ❖ Business sustainability under normal as well as adverse conditions; and
- ❖ Responsible behaviours towards all stakeholders.



## **DIRECTORS' REPORT (continued)**

### **13. RISK MANAGEMENT AND INTERNAL CONTROL (continued)**

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance with such measures by staff. Whilst no system, of internal control can provide absolute assurance against misstatement or losses, the company system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31 December 2010 and is of the opinion that they met accepted criteria.

### **14. SOLVENCY**

The Board of directors confirms that applicable International Financial Reporting Standards ('IFRS') have been followed and that the financial statements have been prepared on a going concern basis. The Board of directors has reasonable expectation that TATEPA and its subsidiary Companies have adequate resources to continue in operational existence for the foreseeable future.

### **15. EMPLOYEES' WELFARE**

#### **Management and Employees' Relationship**

There were continued good relation between employees and management for the year 2010. There were no unresolved complaints received by management from the employees during the year. A healthy relationship continues to exist between management and the Trade Union.

TATEPA and its subsidiaries remain equal opportunity employers. They give equal access to employment opportunities and ensure that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge relevant duties.

#### **Training Facilities**

When presenting its annual budget for the year 2010, the Group allocated a sum of TShs 20.5 million (2009: TShs 18.2 million) for staff training in order to improve employees' technical skills and hence effectiveness. Training programs have been and are continually being developed to ensure employees are adequately trained at all levels, all employees have some form of annual training to upgrade skills and enhance development.

#### **Medical Assistance**

All members of staff with a maximum number of four beneficiaries (dependants) for each employee were availed medical assistance (payment of medical bills) at government hospitals within their locations.

#### **Health and Safety**

The Group Companies have strong health and safety committees which ensure that a strong culture of safety prevails at all times. A safe working environment is ensured for all employees and contractors by providing adequate and proper personal protective equipment, training and supervision, as necessary.



## **DIRECTORS' REPORT (continued)**

### **15. EMPLOYEES' WELFARE (continued)**

#### **Financial Assistance to Staff**

Loans are available to all confirmed employees on commercial terms depending on the assessment of and the discretion of management as to the need and circumstances. However, the Group advises its employees to seek independent financial assistance from financial institutions wherever possible.

#### **Persons with Disabilities**

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicants concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and appropriate training is arranged.

It is the policy of the Company that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

#### **Employees Benefit Plan**

The Group companies pay contributions to a publicly administered pension plans on mandatory basis which qualifies to be a defined contribution plan.

The Group companies also maintain an unfunded non-contributory employee gratuity arrangement (the "Arrangements"), which provides for lump sum payments to its employees on their retirement at the age of 55, based on length of service and salary at retirement and qualifies as a defined benefits plan. The payments to the retired employees are made from Group companies internally generated funds.

The average number of employees in the Group during the year was 156 (2009:131).

### **16. GENDER PARITY**

As at 31 December 2010, the Group had 202 (2009: 136) employees, out of which 35 (2009:29) were female and 167 (2009: 107) were male.

### **17. RELATED PARTY TRANSACTIONS**

All related party transactions and balances are disclosed in note 32 to these financial statements.

### **18. POLITICAL AND CHARITABLE DONATIONS**

The Group did not make any political donations during the year. Donations made to public institutions and charitable organizations during the year amounted to TShs 8.79 million (2009:TShs 1.38 millions).

### **19. ENVIRONMENTAL CONTROL PROGRAMME**

Wakulima Tea Company Limited uses firewood as a source of power in the process of tea withering, the Company plays its role in the protection of the environment by distributing low energy stoves and forest nurseries to its small holder tea growers free of charge. Furthermore, the Company also discourages the harvesting of immature forests by not buying firewood harvested from immature forests.



## **DIRECTORS' REPORT (continued)**

### **19. ENVIRONMENTAL CONTROL PROGRAMME (continued)**

The Group companies also have programmes for training of farmers on plucking, the use of herbicides, application of fertilizer and it collects all empties resulting from the use of chemicals by farmers at its own costs.

### **20. CORPORATE SOCIAL RESPONSIBILITY**

The Group Companies continue to ensure that its employees, stakeholders and the environment are responsibly managed through collective bargain agreements, pursuit of international standards (Fairtrade, HACCP, ISO 22000 and Rain Forest Alliance), innovative HIV/AIDS awareness and prevention schemes and continual dialogue.

### **21. AUDITORS**

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and are eligible for reappointment.

Approved by Board of Directors on ..... and signed on its behalf by;

**CHAIRMAN: J J MUNGAI (RTD MP)**

25 Feb 2011

**Date**

**DIRECTOR:**

25 February 2011

**Date**



## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

The Companies Act, CAP 212 Act No. 12 of 2002 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of the Group's and Company's profit or loss. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act, CAP 212 Act No. 12 of 2002. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs and the profit or loss of the Group and the Company in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

  
\_\_\_\_\_  
**CHAIRMAN: J J MUNGAI**

  
\_\_\_\_\_  
**DATE**



## **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF TANZANIA TEA PACKERS LIMITED**

### **Report on the financial statements**

We have audited the accompanying financial statements of Tanzania Tea Packers Limited (the Company) and its subsidiaries (together, the Group), which comprise the balance sheets as at 31 December 2010, the profit and loss accounts and statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Directors' responsibility for the financial statements*

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act, CAP 212 Act No. 12 of 2002 and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Opinion*

In our opinion the accompanying financial statements give a true and fair view of the state of the company's and group's affairs at 31 December 2010 and of their profits and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Act, CAP 212 Act No. 12 of 2002.



## **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF TANZANIA TEA PACKERS LIMITED (continued)**

### **Report on other legal and regulatory requirements**

This report, including the opinion, has been prepared for, and only for, the company's members as a body in accordance with the Companies Act, CAP 212 Act No. 12 of 2002 and for no other purposes.

As required by the the Companies Act, CAP 212 Act No. 12 of 2002, we are also required to report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if the financial statements are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed. There is no matter to report in respect of the foregoing requirements.

PricewaterhouseCoopers  
Certified Public Accountants  
Dar es Salaam

Signed by: Leonard C Mususa

*25 February 2011*

Date



## PROFIT AND LOSS ACCOUNTS

Notes	Group		Company	
	2010 TShs '000	2009 TShs '000	2010 TShs '000	2009 TShs '000
Revenue	12,152,841	9,947,794	-	-
Gain/(loss) arising from changes in fair value less estimated point of sale costs of biological assets	16	104,676	32,323	-
		12,257,517	9,980,117	-
Cost of sales	6	(8,233,387)	(7,019,995)	-
<b>Gross profit</b>		4,024,130	2,960,122	-
Other operating income	7	39,950	76,821	298,392
Selling and marketing costs	8	(1,140,249)	(986,577)	-
Administrative expenses	9	(2,503,300)	(2,207,902)	(368,389)
Fair value gain on AECF loan		27,629	-	-
Write off of coffee estate costs		(40,851)	-	-
Revenue grant		156,824	-	-
Gain on disposal of investment	17	25,834	-	25,834
<b>Operating profit/(loss)</b>		589,967	(157,536)	(44,163)
Finance costs	11	(297,528)	(346,220)	-
Profit/(loss) before income tax expense		292,439	(503,756)	(44,163)
Income tax expense	12	(277,632)	(78,514)	(29,932)
<b>Profit / (loss) for the year</b>		14,807	(582,270)	(74,095)
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>				
<b>Profit / (loss) for the year</b>		14,807	(582,270)	(74,095)
<b>Total comprehensive income/(loss) for the year</b>		14,807	(582,270)	(74,095)
<b>Attributable to:</b>				
Minority interests		47,253	(92,410)	
Equity holders of the Company		(32,446)	(489,860)	
Earnings per share attributable to the equity holders of the Company during the year (expressed in TShs per share)				
Basic	13	(1.82)	(27.43)	
Diluted	13	(1.82)	(27.43)	



## BALANCE SHEETS AS AT 31 DECEMBER 2010

ASSETS	Notes	Group		Company	
		2010 TShs '000	2009 TShs '000	2010 TShs '000	2009 TShs '000
<b>Non-current assets</b>					
Property, plant and equipment	15	6,972,458	5,233,630	-	-
Biological assets	16	1,600,238	1,536,413	-	-
Investment in subsidiaries	17	-	-	2,402,462	2,473,707
Loan receivable	18	92,385	-	1,440,498	-
		<b>8,665,081</b>	6,770,043	<b>3,842,960</b>	2,473,707
<b>Current assets</b>					
Inventories	19	2,298,986	2,287,058	-	-
Biological asset - nurseries		39,957	17,019	-	-
Trade and other receivables	20	1,515,250	1,145,704	23,263	26,962
Loans receivable	21	-	-	597,168	1,991,643
Income tax recoverable		182,751	158,648	164,853	165,110
Bank and cash balances	22	252,263	375,550	9,993	11,770
		<b>4,289,207</b>	3,983,979	<b>795,277</b>	2,195,485
<b>Total assets</b>		<b>12,954,288</b>	10,754,022	<b>4,638,237</b>	4,669,192
<b>EQUITY</b>					
Capital and reserves attributable to the Company's equity holders					
Share capital	30	446,429	446,429	446,429	446,429
Share premium	30	3,748,429	3,748,429	3,748,429	3,748,429
Retained earnings		277,689	310,135	270,896	344,991
		<b>4,472,547</b>	4,504,993	<b>4,465,754</b>	4,539,849
Minority interests		987,683	818,696	-	-
Total equity		<b>5,460,230</b>	5,323,689	<b>4,465,754</b>	4,539,849
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	24	4,091,461	1,999,910	-	-
Deferred tax liability	26	702,402	556,393	-	-
Employees' gratuity	27	260,181	103,387	-	-
		<b>5,054,044</b>	2,659,690	-	-
<b>Current liabilities</b>					
Trade and other payables	23	1,022,567	1,245,864	172,483	129,343
Borrowings	24	1,417,447	1,524,779	-	-
		<b>2,440,014</b>	2,770,643	<b>172,483</b>	129,343
<b>Total liabilities</b>		<b>7,494,058</b>	5,430,333	<b>172,483</b>	129,343
<b>Total equity and liabilities</b>		<b>12,954,288</b>	10,754,022	<b>4,638,237</b>	4,669,192

The financial statements on pages 20 to 58 were approved for issue by the board of directors on 25 February 2011 and signed on its behalf by:-



**CHAIRMAN: J.J. MUNGAI**



**DATE**



## STATEMENT OF CHANGES IN EQUITY

<b>GROUP</b>	<b>Share capital</b> TShs '000	<b>Share premium</b> TShs '000	<b>Retained earnings</b> TShs '000	<b>Minority interest</b> TShs '000	<b>Total</b> TShs '000
<b>Year ended 31 December 2009</b>					
At start of year	446,429	3,748,429	799,995	684,906	5,679,759
Total comprehensive loss for the year	-	-	(489,860)	(92,410)	(582,270)
<i>Transactions with owners:</i>					
Shares issued during the year	-	-	-	226,200	226,200
<b>As at 31 December 2009</b>	<b>446,429</b>	<b>3,748,429</b>	<b>310,135</b>	<b>818,696</b>	<b>5,323,689</b>
<b>Year ended 31 December 2010</b>					
At start of the year	446,429	3,748,429	310,135	818,696	5,323,689
Total comprehensive income for the year	-	-	(32,446)	47,253	14,807
<i>Transactions with owners:</i>					
Shares sold to minority	-	-	-	121,734	121,734
<b>As at 31 December 2010</b>	<b>446,429</b>	<b>3,748,429</b>	<b>277,689</b>	<b>987,683</b>	<b>5,460,230</b>
<b>COMPANY</b>					
<b>Year ended 31 December 2009</b>					
At start of year		446,429	3,748,429	573,114	4,767,972
Total comprehensive loss for the year		-	-	(228,123)	(228,123)
<b>As at 31 December 2009</b>		<b>446,429</b>	<b>3,748,429</b>	<b>344,991</b>	<b>4,539,849</b>
<b>Year ended 31 December 2010</b>					
At start of year		446,429	3,748,429	344,991	4,539,849
Total comprehensive loss for the year		-	-	(74,095)	(74,095)
<b>As at 31 December 2010</b>		<b>446,429</b>	<b>3,748,429</b>	<b>270,896</b>	<b>4,465,754</b>



## CASHFLOW STATEMENT

	Notes	Group		Company	
		2010	2009	2010	2009
		TShs '000	TShs '000	TShs '000	TShs '000
<b>Cash flows from operating activities</b>					
Cash generated from operations	31	<b>747,906</b>	573,828	<b>(23,158)</b>	341,268
Interest paid		<b>(320,808)</b>	(338,759)	-	-
Income tax paid		<b>(155,724)</b>	(40,383)	<b>(29,676)</b>	(40,383)
Interest received		<b>7,319</b>	763	-	763
Net cash generated from/(utilised in) operating activities		<b>278,693</b>	195,449	<b>(52,834)</b>	301,648
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	15	<b>(2,414,881)</b>	(393,814)	-	-
Cost incurred on biological assets	16	-	(210,451)	-	-
Proceeds from sale of property, plant, and equipment		<b>1,633</b>	17,755	-	-
Long term loan to third parties		<b>(92,385)</b>	-	-	-
Long term loans to subsidiaries (net)		-	-	<b>(46,020)</b>	-
Investment in subsidiaries		-	-	<b>(50,490)</b>	(647,700)
Proceeds from sale of investment	17	<b>147,567</b>	-	<b>147,567</b>	-
Net cash (utilized in)/generated from investing activities		<b>(2,358,066)</b>	(586,510)	<b>51,057</b>	(647,700)
<b>Cash flows from financing activities</b>					
Interest bearing borrowings		<b>1,439,305</b>	-	-	-
Repayment of borrowings		<b>(637,926)</b>	(444,955)	-	-
Proceeds from issue of shares		-	226,200	-	-
Interest free borrowings and grant		<b>1,344,036</b>	-	-	-
Net cash generated from (used in) financing activities		<b>2,145,415</b>	(218,755)	-	-
Net increase/(decrease) in cash and cash equivalents		<b>66,042</b>	(609,816)	<b>(1,777)</b>	(346,052)
Cash and cash equivalents at start of year		<b>(499,986)</b>	109,830	<b>11,770</b>	357,822
Cash and cash equivalents at end of year	22	<b>(433,944)</b>	(499,986)	<b>9,993</b>	11,770



## NOTES TO THE FINANCIAL STATEMENTS

### I. GENERAL INFORMATION

Tanzania Tea Packers Limited is incorporated in Tanzania under the Companies Act, CAP 212 Act No. 12 of 2002 as a limited liability company and listed on the Dar es Salaam Stock Exchange. It is domiciled in Tanzania.

The Group is involved in growing, processing and sale of tea in the local as well as the export markets. It also produces and exports Avocado.

The address of its registered office is:

Nyerere Road,  
Vingunguti Industrial Area,  
Plot 7/7A,  
P O Box 1344,  
Dar es Salaam – Tanzania.

And its principal places of business are given below:-

Wakulima Tea Company Limited  
Tukuyu Township,  
Katumba Factory,  
P O Box 700 Tukuyu – Mbeya

Rungwe Avocado Company Limited  
Tukuyu Township,  
P O Box 700 Tukuyu – Mbeya

### 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 the years presented, unless otherwise stated.

#### (a) Basis of preparation

The financial statements of Tanzania Tea Packers Limited have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and IFRIC interpretations. These financial statements have been prepared under the historical cost convention, except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania shillings and the values are rounded to the nearest thousands, except where otherwise indicated.

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 Group’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.

#### **Changes in accounting policy and disclosures**

##### (i) New and amended standard adopted by the Group

There were no new or amended standard adopted by the company during the year.



## NOTES (CONTINUED)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (a) Basis of preparation (continued)

#### (ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2010 or later periods;

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category.

This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.
- IAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.
- IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-



## NOTES (CONTINUED)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (a) Basis of preparation (continued)

current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifications that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

#### (iii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted

The group's and parent entity's assessment of the impact of these new standards and interpretations is set out below.

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.
- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the revised standard from 1 January 2011. When the revised standard is applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates.
- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'.



## NOTES (CONTINUED)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (a) Basis of preparation (continued)

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the group or the parent entity's financial statements.
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The group will apply these amendments for the financial reporting period commencing on 1 January 2011.

#### (b) Consolidation

##### Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. This generally accompanies a shareholding of more than one half of voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control passes to the Group and are de-consolidated from the date that control ceases. The Group uses the purchase method of accounting to account for the acquisition of subsidiaries.

The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets and liabilities and contingent liabilities assumed are measured at fair value, at acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the profit and loss account.

Inter-company transactions, balances and unrealized gains on transactions between Group Companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### (c) Revenue recognition

Revenue represents the fair value of the consideration receivable for sale of goods and services, and is stated net of value-added tax (VAT), rebates and discounts and is accounted for in the period in which it is earned.



## NOTES (CONTINUED)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Revenue recognition (continued)

Revenue is recognized as follows:

##### (i) Sales of goods

The Group exports tea and avocados. In addition it sells some its tea to the local tea packers. Sale of goods is recognised when the Group has transferred to the customer the significant risks and rewards of ownership of the goods, the amount of revenue can be measured reliably and the customer has accepted the products and collectability of the related receivable is reasonably assured.

##### (ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

#### (d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of the directors that makes strategic decisions.

#### (e) Foreign currency translation

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency for all entities in the Group is the Tanzania Shilling. The consolidated financial statements are presented in the Tanzania shilling, which is the Company's functional and presentation currency.

##### (ii) Transactions and balances

Foreign currency transactions are translated into Tanzania Shillings using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities at the balance sheet date, which are expressed in foreign currencies, are translated into Tanzania Shillings at rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

#### (f) Property, plant and equipment

Leasehold improvements and buildings comprise mainly tea factory and offices. All property, plant and equipment are shown at cost, less subsequent depreciation and impairment. Cost includes expenditure directly attributable to the acquisition of the items. Subsequent costs are included in 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 Group and the cost of the item can be reliably measured.



## NOTES (CONTINUED)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (f) Property, plant and equipment (continued)

Depreciation is calculated using the straight-line method to allocate the cost of each asset to its residual value over the estimated useful life as follows:

	Rate (%)
Leasehold improvements	Tenure of lease
Buildings	2.0 - 4.0
Motor vehicles	25.0
Machinery, equipment, furniture and fittings	12.5
Computers	33.3

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner. All other repairs and maintenance expenditure are charged to the profit and loss account during the financial period in which they are incurred.

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

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

Gain or losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the profit and loss account.

#### (g) Investments in subsidiaries

In the Company's balance sheet, investments in subsidiaries are carried at cost. If there is objective evidence that an impairment loss has been incurred on investments in subsidiaries, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Any subsequent reversal of an impairment loss is recognised in profit or loss.

#### (h) Biological assets

Biological assets are measured on initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs. Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair value less estimated point-of-sale costs are recognised in the profit and loss account in the year in which they arise. The cost of upkeep and maintenance of biological assets is expensed in the period incurred.

#### (i) Impairment of assets

Assets that are subject to amortisation or depreciation 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.



## NOTES (CONTINUED)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Impairment of assets (continued)

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separable identifiable cash flows (cash-generating units).

#### (j) Operating leases

Operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

#### (k) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of processed tea comprises the fair value of tea harvested from the Company's plantations less point of sale costs at the point of harvest or cost of purchasing leaf from out growers, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. Stores and consumables are stated at cost less any provision for obsolescence.

#### (l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings under current liabilities.

#### (m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### (n) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Tanzania Income Tax Act, 2004.

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially 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 to the extent that the directors consider that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is recognised as income tax benefit or expense in the year in which it arises.



## NOTES (CONTINUED)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (o) Employees benefits

##### Retirement benefit obligations

The Group Companies have defined benefits and defined contributions plans. The Group Companies have an unfunded non-contributory employee gratuity arrangement (the "Arrangements"), which provides for lump sum payments to its employees on their retirement at the age of 55, based on length of service and salary at retirement and qualifies as a defined benefits plan. The payments to the retired employees are made from Group Companies internally generated funds.

The liability recognised in the balance sheet in respect of the defined benefits plan is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognized actuarial gains or losses and past service costs. A full actuarial valuation of the retirement benefit obligations is performed after every three years by independent actuaries using the projected unit credit method. An update valuation is performed by the directors at the end of each year in the intervening period. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the profit and loss account in the period in which they occur.

For defined contribution plan, all Companies in the Group pay contributions to publicly administered pension plans (NSSF or PPF) on a mandatory basis. The Group Companies have no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefits expense when they are due.

#### (p) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

#### (q) Trade payables

Contractual obligations to deliver cash or another financial asset to another entity are initially measured at fair value, net of transaction costs. They are then subsequently measured at amortised cost using the effective interest method.

#### (r) Trade receivables

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 Group 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 expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

#### (s) Loans receivable

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans receivable are recognised initially



## NOTES (CONTINUED)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (s) Loans receivable (continued)

at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment is established when there is objective evidence that an impairment loss is likely to be incurred on the receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected cash flows, discounted at the effective interest rate. The amount of the provision and any subsequent reversal of an impairment loss are recognised in the profit and loss account.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### (i) Critical accounting estimates and assumptions

##### Biological assets

Critical assumptions are made by the directors in determining the fair values of biological assets. The carrying amounts and key assumptions are set out in Note 17.

##### Post-employment benefit obligations

Critical assumptions are made by the actuary in determining the present value of retirement benefit obligations. The carrying amounts and key assumptions are set out in Note 28.

#### (ii) Critical judgments in applying the entity's accounting policies

In the process of applying the Company's accounting policies, management has made judgments in determining whether assets are impaired.

### 4. FINANCIAL RISK MANAGEMENT

The Group's and Company's activities expose them to a variety of financial risks: foreign currency risk, credit risk and cash flow interest-rate risk. The Group's overall risk management programme seeks to minimize potential adverse effects on the Group's financial performance. Risks management is carried out by the management on behalf of the Board of Directors.

#### **Credit risk**

Credit risk arises from cash equivalents as well as trade and other receivables. For banks and financial institutions only reputable banks and financial institutions are used by the Group companies for banking services. Customers are assessed for credit quality by taking into account their financial position, past experience and other factors before being approved to buy goods or services on credit. The account balances and length of time outstanding are regularly monitored.

No collateral is held for cash equivalents and trade and other receivables, except for fertilizer loans amounting to Tshs 334 million (2009: Tshs 306million) to outgrower farmers in Rungwe District who supply green leaf.



## NOTES (CONTINUED)

### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Credit risk (continued)

The farmers' organization deposited Tshs 149 million (2009: Shs 198 million) as security against default by its members.

#### Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group and the Company maintain flexibility in funding by maintaining availability under committed credit lines and through inter-company short term advances. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Group	Within 1 year TShs'000	Between 1 and 2 years TShs'000	Between 2 and 5 years TShs'000	Over 5 years TShs'000
<b>At 31 December 2010</b>				
Borrowings and interest liabilities	1,721,542	807,163	2,113,846	539,755
Trade and other payables	1,022,567	-	-	-
<b>Total financial liabilities</b>	<b>2,744,109</b>	<b>807,163</b>	<b>2,113,846</b>	<b>539,755</b>
<b>At 31 December 2009</b>				
Borrowings and interest liabilities	1,808,697	455,301	1,133,802	833,504
Trade and other payables	1,245,864	-	-	-
<b>Total financial liabilities</b>	<b>3,054,561</b>	<b>455,301</b>	<b>1,133,802</b>	<b>833,504</b>
<b>Company</b>				
<b>At 31 December 2010</b>				
Trade and other payables	172,483	-	-	-
<b>Total financial liabilities</b>	<b>172,483</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 31 December 2009</b>				
Trade and other payables	129,343	-	-	-
<b>Total financial liabilities</b>	<b>129,343</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### Interest rates risk

The Group's interest rate risk arises from long and short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Where necessary the Group refinances its borrowings in order to ensure its borrowing terms remain competitive.



## NOTES (CONTINUED)

### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### **Interest rates risk (continued)**

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

Based on the simulation performed at 31 December 2010, an increase/decrease of 200 basis points would have resulted in a decrease/increase in consolidated post tax profit of TShs 48 million (2009: TShs 44 million), mainly as a result of higher/lower interest charges on variable rate borrowings.

The Company does not have any external borrowings as such it is not subject to interest rate risk.

#### **Exchange rate risk management**

The Group Companies frequently enter into transactions denominated in foreign currencies (primarily United States Dollars ("US\$")). In addition, the Group Companies have assets and liabilities denominated in United States Dollars ("US\$"). As a result, the Group Companies are subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. Exposure to foreign currency risk is mitigated by the fact that almost 85% (2009:85%) of its earnings are in foreign currencies (mainly US dollars).

At 31 December 2010, if the Tanzania shilling (TShs) had strengthened / weakened by 10% against the US dollar with all other variables held constant, the Group's profit after tax for the year and equity would have been TShs 298m (2009: TShs 157m) higher / lower, mainly as a result of foreign exchange gains / losses on translation of US dollar-denominated trade receivables, trade payables and borrowings. Profit and equity are more sensitive to movement of TShs / US\$ in 2010 than 2009 because of the increase in US dollar-denominated borrowings.

With the strengthening / weakening by 10% of the Tanzania shilling against the US dollar at 31 December 2010, with all other variables held constant, the Company's profit after tax for the year and equity would have been TShs 0.5m (2009: TShs 12m) higher / lower, mainly as a result of foreign exchange gains / losses on translation of US dollar-denominated trade receivables, trade payables and borrowings. Profit and equity are less sensitive to movement of TShs / US\$ in 2010 than 2009 because of the decrease in US dollar-denominated cash balances and creditors in 2010.

The movement of the Tanzania shilling against other currencies is insignificant because the number and value of transactions in other foreign currencies entered into by the Group Companies is insignificant.

#### **Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as a net debt divided by total capital. Net debt is calculated as total borrowings (including current and non current borrowings as



## NOTES (CONTINUED)

### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Capital risk management (continued)

shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt.

During the year 2010, the Group's strategy, which was unchanged from 2009, was to maintain the gearing ratio within 25% to 50%. The gearing ratios at 31 December 2010 and 2009 were as follows:

<b>Group</b>	<b>2010</b>	<b>2009</b>
	<b>TShs '000</b>	<b>TShs '000</b>
Total borrowings (Note 24)	<b>5,508,908</b>	3,524,689
Less cash and cash equivalents (Note 22)	<b>(252,263)</b>	(375,550)
Net debt	<b>5,256,645</b>	3,149,139
Total equity	<b>5,460,229</b>	5,323,689
Total capital	<b>10,716,874</b>	8,472,828
Gearing ratio	<b>49.05%</b>	37.17%

The increase in gearing during the year 2010 resulted from the loss in Rungwe Avocado Company Limited, which is a start up business and increased financing in Wakulima Tea Company Limited for the Green Leaf Fleet and in Rungwe Avocado Company Limited.

The Company does not hold external borrowings.

### 5. BUSINESS SEGMENT INFORMATION

The Group has determined its operating segments based on the review by management in consultation with the board.

The Group is currently organized into two main operating segments; growing and processing of tea and growing & processing of avocado. Management considers the business from both market and product perspectives. Market wise, management considers the main lines through which the Group derives its revenue. At the moment the major lines of selling the Group's tea is through the auction at Mombasa, private sale by a broker in the UK and directly to blenders. Both sales to the auction and the broker in the UK are export sales while direct sales to blenders are mainly to local blenders.



## NOTES (CONTINUED)

### 5. BUSINESS SEGMENT INFORMATION (CONTINUED)

An analysis of the Group's revenue for the year is as follows:

2010	Growing & processing tea TShs '000	Other TShs '000	Avocado and other fruits TShs '000	Eliminations TShs '000	Consolidated TShs '000
<b>REVENUE</b>					
- Export sales	11,086,810	-	20,197	-	11,107,007
- Local sales	1,045,834	-	-	-	1,045,834
	<b>12,132,645</b>	<b>-</b>	<b>20,197</b>	<b>-</b>	<b>12,152,841</b>
<b>Operating profit/(loss) from operations</b>	<b>1,433,009</b>	<b>(44,163)</b>	<b>(485,400)</b>	<b>(313,480)</b>	<b>589,967</b>
Finance costs	(613,948)	-	2,940	313,480	(297,528)
<b>Profit/(loss) before tax</b>	<b>819,061</b>	<b>(44,163)</b>	<b>(482,460)</b>	<b>-</b>	<b>292,439</b>
Income tax credit/(charge)	(247,700)	(29,932)	-	-	(277,632)
<b>Profit for the year</b>	<b>571,361</b>	<b>(74,095)</b>	<b>(482,460)</b>	<b>-</b>	<b>14,807</b>
Other segment items included in the profit and loss account:					
Depreciation	637,496	-	22,056	-	659,552
Fair value adjustment on biological assets	(104,676)	-	-	-	(104,676)

## NOTES (CONTINUED)

### 5. BUSINESS SEGMENT INFORMATION (CONTINUED)

2010	Growing & processing tea TShs '000	Other TShs '000	Avocado and other fruits TShs '000	Eliminations TShs '000	Consolidated TShs '000
Segment assets and liabilities and capital expenditure:					
<b>Assets</b>					
Non-current assets	7,223,282	3,842,961	1,587,316	(3,988,478)	8,665,081
Current assets	3,642,403	795,274	452,893	(601,363)	4,289,207
<b>Total assets</b>	<b>10,865,685</b>	<b>4,638,235</b>	<b>2,040,209</b>	<b>(4,589,841)</b>	<b>12,954,288</b>
<b>Liabilities</b>					
Current liabilities	2,774,162	172,481	94,734	(601,363)	2,440,014
Non current liabilities	4,695,154	-	1,799,388	(1,440,498)	5,054,044
<b>Total liabilities</b>	<b>7,469,316</b>	<b>172,481</b>	<b>1,894,122</b>	<b>(2,041,861)</b>	<b>7,494,058</b>
Additions: Property plant and equipment and biological assets	1,145,881	-	1,269,000	-	2,414,881





## NOTES (CONTINUED)

### 5. BUSINESS SEGMENT INFORMATION (CONTINUED)

2009	Growing & processing tea TShs '000	Other TShs '000	Avocado and other fruits TShs '000	Eliminations TShs '000	Consolidated TShs '000
<b>REVENUE</b>					
- Export sales	8,020,918	-	18,523	-	8,039,441
- Local sales	1,908,353	-	-	-	1,908,353
	<b>9,929,271</b>	<b>-</b>	<b>18,523</b>	<b>-</b>	<b>9,947,794</b>
<b>Operating profit from operations</b>	<b>980,170</b>	<b>(191,541)</b>	<b>(569,643)</b>	<b>(376,522)</b>	<b>(157,536)</b>
Finance costs	(722,742)	-	-	376,522	(346,220)
<b>Profit/(loss) before tax</b>	<b>257,428</b>	<b>(191,541)</b>	<b>(569,643)</b>	<b>-</b>	<b>(503,756)</b>
Income tax (charge)/credit	(41,932)	(36,582)	-	-	(78,514)
<b>Profit/(loss) for the year</b>	<b>215,496</b>	<b>(228,123)</b>	<b>(569,643)</b>	<b>-</b>	<b>(582,270)</b>
Other segment items included in the profit and loss account					
Depreciation and amortization	650,382	-	7,615	-	657,997
Loss arising from changes in fair value of biological assets	(32,323)	-	-	-	(32,323)

## NOTES (CONTINUED)

### 5. BUSINESS SEGMENT INFORMATION (CONTINUED)

2009	Growing & processing tea TShs '000	Other TShs '000	Avocado and other fruits TShs '000	Eliminations TShs '000	Consolidated TShs '000
Segment assets and liabilities and capital expenditure					
<b>Assets</b>					
Non-current assets	6,735,206	4,273,706	288,838	(4,527,707)	6,770,043
Current assets	3,497,001	395,486	291,865	(200,373)	3,983,979
<b>Total assets</b>	<b>10,232,207</b>	<b>4,669,192</b>	<b>580,703</b>	<b>(4,728,080)</b>	<b>10,754,022</b>
<b>Liabilities</b>					
Current liabilities	2,818,975	129,344	16,233	(200,373)	2,770,643
Non current liabilities	4,453,479	-	6,212	(1,800,001)	2,659,690
<b>Total liabilities</b>	<b>7,278,917</b>	<b>129,344</b>	<b>22,445</b>	<b>(2,000,373)</b>	<b>5,430,333</b>
Additions: Property plant and equipment and biological assets	307,812	-	296,453	-	604,265

Transactions between segments are carried out at arm's length. The revenue from external parties reported is measured in a manner consistent with that in the financial statement. No inter-segment transactions occurred during 2010 and 2009.

The amounts with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and physical location of the asset.





## NOTES (CONTINUED)

### 5. BUSINESS SEGMENT INFORMATION (CONTINUED)

The Company, together with all its subsidiary companies are domiciled in the United Republic of Tanzania. The results of its revenue from external customers are as follows:

	Group		Company	
	2010	2009	2010	2009
	TShs '000	TShs '000	TShs '000	TShs '000
United Republic of Tanzania	1,079,857	1,908,353	-	-
United Kingdom	10,330,445	7,309,123	-	-
Republic of Kenya	742,539	730,318	-	-
<b>Total</b>	<b>12,152,841</b>	<b>9,947,794</b>	<b>-</b>	<b>-</b>

Revenues are allocated based on the country from which sales proceeds are received.

All Group assets are located in Tanzania.



## NOTES (CONTINUED)

### 6. COST OF SALES

	Group		Company	
	2010 TShs '000	2009 TShs '000	2010 TShs '000	2009 TShs '000
Processing costs	1,712,942	1,756,147	-	-
Packing materials costs	283,510	277,441	-	-
Greenleaf purchased from outgrowers	4,111,994	3,608,668	-	-
Field costs	1,338,024	1,078,898	-	-
Changes in stock of finished goods and work in progress	380,669	(306,535)	-	-
Depreciation charges (Note 15 )	406,248	605,376	-	-
	<b>8,233,387</b>	<b>7,019,995</b>	<b>-</b>	<b>-</b>

### 7. OTHER OPERATING INCOME

Management service income	-	25,534	-	25,534
Income from sale of scraps and wastages	8,055	6,943	-	-
Sale of seedlings and livestock products	35,903	42,722	-	-
Interest income	7,319	763	298,392	356,534
(Loss) / gain on disposal of plant property and equipment	(14,868)	578	-	-
Other income	3,541	281	-	-
	<b>39,950</b>	<b>76,821</b>	<b>298,392</b>	<b>382,831</b>

### 8. SELLING AND MARKETING COSTS

Transport, distribution & handling charges	777,680	618,753	-	-
Salesmen remuneration	104,332	80,215	-	-
Non recoverable VAT expenses	77,923	156,328	-	-
Cess and other government levies	94,965	78,176	-	-
Other selling costs	85,349	53,105	-	-
	<b>1,140,249</b>	<b>986,577</b>	<b>-</b>	<b>-</b>



## NOTES (CONTINUED)

### 9. ADMINISTRATIVE EXPENSES

	Group		Company	
	2010 TShs '000	2009 TShs '000	2010 TShs '000	2009 TShs '000
Staff related costs	<b>469,932</b>	333,715	-	-
Travelling costs	<b>102,574</b>	122,107	<b>11,391</b>	35,955
Consultancy and professional fees	<b>1,048,359</b>	1,013,850	<b>193,961</b>	397,896
Directors fees and allowances	<b>99,695</b>	61,625	<b>58,238</b>	42,765
Office expenses	<b>243,493</b>	289,564	<b>16,763</b>	33,191
Auditors' remuneration	<b>75,968</b>	66,144	<b>20,615</b>	20,308
Research expenses on new products	<b>11,229</b>	18,141	-	-
Depreciation (Note 15)	<b>253,304</b>	52,621	-	-
Foreign currency exchange (gains)/losses	<b>14,423</b>	(914)	<b>15,250</b>	(19,987)
Other administration costs	<b>184,323</b>	208,101	<b>52,171</b>	64,244
Pre-operational costs	-	42,948	-	-
	<b>2,503,300</b>	2,207,902	<b>368,389</b>	574,372

### 10. STAFF RELATED COSTS

Salaries, wages and bonuses	<b>397,715</b>	544,636	-	-
Medical expenses	<b>4,856</b>	7,848	-	-
Canteen costs, uniforms and amenities	<b>133,911</b>	229,284	-	-
Defined contribution schemes (NSSF)	<b>56,744</b>	56,744	-	-
Defined benefit scheme	<b>186,908</b>	18,334	-	-
	<b>780,134</b>	856,846	-	-

### 11. FINANCE COSTS

Interest expense	<b>320,808</b>	338,759	-	-
Net foreign exchange transaction losses	<b>(23,280)</b>	7,461	-	-
	<b>297,528</b>	346,220	-	-

### 12. INCOME TAX EXPENSE

Current income tax charge/(credit)	<b>131,623</b>	(113,010)	<b>29,932</b>	36,582
Deferred income tax charge (Note 26)	<b>146,009</b>	191,524	-	-
Income tax charge	<b>277,632</b>	78,514	<b>29,932</b>	36,582



## NOTES (CONTINUED)

### 12. INCOME TAX EXPENSE (continued)

The tax on the profit before income tax for the Group and Company differs from the theoretical amount that would arise using the basic income tax rate as follows:

	Group		Company	
	<u>2010</u> TShs '000	<u>2009</u> TShs '000	<u>2010</u> TShs '000	<u>2009</u> TShs '000
Profit/(loss) before income tax	<b>292,439</b>	(503,756)	<b>(44,163)</b>	(191,541)
Tax calculated at a rate of 30%	<b>87,732</b>	(151,127)	<b>(13,249)</b>	(57,462)
Expenses not deductible for tax	<b>53,857</b>	93,946	<b>50,931</b>	90,082
Gain on disposal of investment not subject to tax	<b>(7,750)</b>	-	<b>(7,750)</b>	-
Tax losses for which no deferred income tax asset was recognised	<b>143,793</b>	169,906	-	-
Adjustments to tax in respect of prior years	-	(34,211)	-	3,962
Income tax (credit) / charge	<b>277,632</b>	78,514	<b>29,932</b>	36,582

### 13. EARNINGS PER SHARE

	Group	
	<u>2010</u> TShs '000	<u>2009</u> TShs '000
(Loss) / profit attributable to shareholders (TShs'000)	<b>(32,446)</b>	(489,860)
Weighted average number of share in issue (Note 30)	<b>17,857,165</b>	17,857,165
Basic and diluted earnings/(loss) per share (TShs)	<b>(1.82)</b>	(27.43)

There being no dilutive or potentially dilutive share options, the basic and diluted earnings per share are the same.

### 14. DIVIDEND PER SHARE

The Company does not intend to pay any dividend (2009: nil) in respect of the year 2010.



## NOTES (CONTINUED)

### 15. PROPERTY, PLANT & EQUIPMENT - GROUP

	<b>Leasehold improvements &amp; buildings TShs '000</b>	<b>Motor vehicles TShs '000</b>	<b>Machinery, equipment, furniture &amp; fittings TShs '000</b>	<b>Capital work in progress TShs '000</b>	<b>Total TShs '000</b>
1 January 2009					
Cost	2,574,401	79,214	2,546,915	2,284,667	7,485,197
Accumulated depreciation	(372,889)	(36,047)	(1,561,271)	-	(1,970,207)
<b>Net book amount</b>	<b>2,201,512</b>	<b>43,167</b>	<b>985,644</b>	<b>2,284,667</b>	<b>5,514,990</b>
Year ended 31 December 2009					
Opening net book amount	2,201,512	43,167	985,644	2,284,667	5,514,990
Additions	5,613	49,226	122,971	216,004	393,814
Transfers	580,994	-	1,887,741	(2,468,735)	-
Disposals	-	(17,177)	-	-	(17,177)
Depreciation charge	(69,132)	(15,812)	(573,053)	-	(657,997)
<b>Net book amount</b>	<b>2,718,987</b>	<b>59,404</b>	<b>2,423,303</b>	<b>31,936</b>	<b>5,233,630</b>
At 31 December 2009					
Cost	3,161,008	103,998	4,557,629	31,936	7,854,571
Accumulated depreciation	(442,021)	(44,594)	(2,134,326)	-	(2,620,941)
<b>Net book amount</b>	<b>2,718,987</b>	<b>59,404</b>	<b>2,423,303</b>	<b>31,936</b>	<b>5,233,630</b>
Year ended 31 December 2010					
Opening net book amount	2,718,987	59,404	2,423,303	31,936	5,233,630
Additions	-	1,145,912	60,641	1,208,328	2,414,881
Transfers	27,839	-	-	(27,839)	-
Disposals	-	-	(2,762)	(13,739)	(16,501)
Depreciation charge	(68,268)	(68,531)	(522,753)	-	(659,552)
<b>Net book amount</b>	<b>2,678,558</b>	<b>1,136,785</b>	<b>1,958,429</b>	<b>1,198,686</b>	<b>6,972,458</b>
At 31 December 2010					
Cost	3,188,849	1,249,910	4,613,070	1,198,686	10,250,515
Accumulated depreciation	(510,291)	(113,125)	(2,654,641)	-	(3,278,057)
<b>Net book amount</b>	<b>2,678,558</b>	<b>1,136,785</b>	<b>1,958,429</b>	<b>1,198,686</b>	<b>6,972,458</b>



## NOTES (CONTINUED)

### 15. PROPERTY, PLANT & EQUIPMENT – GROUP (CONTINUED)

Capital work in progress relates to the pack house and associated equipments for Rungwe Avocado Company Limited of which TShs 727 million (2009: none) relates to expenditure on plant and machinery for the pack house, TShs 447 million (2009: none) on the pack house building, TShs 25 million (2009: none) on the manager's house and none (2009: 18.19 million) on the office block for Rungwe Avocado Company Limited. There was no Capital work in progress for Wakulima Tea Company and TATEPA at the end of the year. All the ongoing projects are expected to be completed in the course of 2011.

Depreciation expense of TShs 406.25 million (2009: TShs 605.38 million) has been charged to cost of goods sold, and TShs 253.30 million (2009: TShs 52.62 million) is classified under administrative expenses.

The Group's property, plant and equipment have been charged to secure loans as set out in Note 24 to the financial statements.

### 16. BIOLOGICAL ASSETS - GROUP

	Others			<b>Total TShs '000</b>
	<b>Tea Bushes TShs '000</b>	<b>Forestry TShs '000</b>	<b>Fruits TShs '000</b>	
<b>Fair value</b>				
<b>Year ended 2009</b>				
At 1 January 2009	1,007,829	285,810	-	1,293,639
Increases due to new planting	-	-	210,451	210,451
(Loss) /gain arising from changes in fair value less estimated point of sale costs	(950)	33,273	-	32,323
<b>At 31 December 2009</b>	<b>1,006,879</b>	<b>319,083</b>	<b>210,451</b>	<b>1,536,413</b>
<b>Year ended 2010</b>				
At 1 January 2010	1,006,879	319,083	210,451	1,536,413
Disposals and write offs**	-	-	(40,851)	(40,851)
Gain arising from changes in fair value less estimated point of sale costs	423,759	(319,083)	-	104,676
<b>At 31 December 2010</b>	<b>1,430,638</b>	<b>-</b>	<b>169,600</b>	<b>1,600,238</b>

\*\*The write off during the year relates to costs incurred in 2009 by Rungwe Avocado Company Limited in the research of viability of coffee growing in the area. The Directors have decided to expense the amount because coffee is not the main business of the Company.

Tea bushes and forestry are carried at fair value less estimated point-of-sale costs. The forestry plantations are maintained to provide wood fuel which is required in withering of tea green leaf and drying of made tea. In determining the fair values of tea bushes, the directors have made certain assumptions about the yields and market prices of tea in future years, and the costs of running the estates.



## NOTES (CONTINUED)

### 16. BIOLOGICAL ASSETS - GROUP (continued)

The key assumptions made concerning the future (projected over 10 years) in respect of tea bushes are as follows:

Climatic conditions are expected to be average;

The average market price of made tea, will be US \$ 1.70 throughout the projection period, based on the average tea price for the past 4 years; and

Cost of inflation will be 4% in 2011, 6.2% in 2012, and 5.4% in 2013 and thereafter it will be capped at 6% throughout the projection period.

In 2009 the key assumptions were; average market price of made tea of US\$1.47 in 2010 thereafter capped at US\$1.49 per kilogram throughout the projection period, based on the average tea price for the past 4 years. Cost of inflation was estimated at 8.5% throughout the projection period.

The pre-tax discount rate applied to the expected net cash flows in 2010 was 20.59 % (2009: 21%).

The Group has 316 hectares (2009:316) and 198.2 hectares (2009: 198.2) of mature tea bushes and forestry, respectively, located in Tukuyu district in Tanzania.

The Group's tea estates produced 2.74m (2009: 2.76 million) kilograms of green tea leaf and nothing was harvested from the forest reserve during year ended 31 December 2010.

### 17. INVESTMENT IN SUBSIDIARIES

	<b>2010</b>	<u>2009</u>
	<b>TShs '000</b>	TShs '000
Equity investment:		
Wakulima Tea Company Limited (a)	<b>1,704,274</b>	1,826,007
Rungwe Avocado Company Limited (RACL) (b)	<b>698,190</b>	647,700
	<b><u>2,402,464</u></b>	<u>2,473,707</u>

The equity investment relates to:

Nature of business	Number and description of share held		% of issued shares held	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
(a) Growing, processing and sale of made tea from green leaf supplied by smallholder tea farmers and own tea estates. (i)	<b>1,537,694</b> <b>ordinary shares</b>	1,647,528 ordinary shares	<b>70%</b>	75%
(b) Growing, processing and sale of avocado and other fruits (ii)	<b>69,819</b> <b>Ordinary shares</b>	64,700 Ordinary shares	<b>58.27%</b>	57.43%



## NOTES (CONTINUED)

### 17. INVESTMENT IN SUBSIDIARIES (continued)

In RACL, Wakulima currently hold 22.85% (2009: 22.52%) of the issued shares in Rungwe Avocado Company Limited while Tatepa holds 58.27% (2009: 57.43%), the balance 18.88% (2009: 20.05%) of the shares are held by Robert Clowes.

During the year Tatepa sold 109,834 shares (5% of the issued shares in Wakulima Tea Company Limited) to the Smallholder growers that sell green leaf to Wakulima Tea Company Limited through their investment arm, Rungwe Smallholders Tea Growers Association Trust. Below is the table showing the proceeds and profits realized during this transaction:

	<u>2010</u> TShs '000	<u>2009</u> TShs '000
Proceeds from shares sold	<b>147,568</b>	-
Cost of shares sold (108,834 shares @ Tshs1,108.33)	<b>(121,734)</b>	-
<b>Profit on disposal of investment / shares</b>	<b>25,834</b>	-

The cost of the shares sold has been credited to minorities interest while the profit on disposal of the shares has been credited to profit and loss account.

### 18. LOAN RECEIVABLE

	<b>Group</b>		<b>Company</b>	
	<u>2010</u> TShs '000	<u>2009</u> TShs '000	<u>2010</u> TShs '000	<u>2009</u> TShs '000
Wakulima Tea Company Limited	-	-	<b>800,000</b>	-
Rungwe Avocado Company Limited	-	-	<b>640,498</b>	-
Moravian Church plantations	<b>92,385</b>	-	-	-
	<b>92,385</b>	-	<b>1,440,498</b>	-

The TShs1,376 million (2009: 1,800 million) loan to Wakulima Tea Company Limited carries interest rate of 15% which is subject to revision should the CRDB Bank's lending rate applicable to corporate customers of similar credit rating to Wakulima Tea Company Limited move by a margin of 50 basis points, the loan is not secured and is repayable after the CRDB bank loans have been fully repaid or CRDB approves repayment based on the gearing of Wakulima Tea Company Ltd.

The repayment date will be mutually agreed by both parties. On this basis the loan is classified as a non current asset as at 31 December 2010. The average effective rate for the year under review was 15% (2009: 15%).

The loan to Rungwe Avocado Company is a medium term facility denominated in US dollar and carries interest at the rate of 12% per annum. Repayment of this loan is subject to the financial position of the borrower, however repayment is not expected earlier than December 2014 and for this reason it is classified as a non current receivable.



## NOTES (CONTINUED)

### 18. LOAN RECEIVABLE (continued)

Rungwe Avocado Company (RAC) entered into a plantation management agreement with The Registered Trustees of Moravian Church in Southern Tanganyika (Moravian) whereby RAC will manage the Moravian plantations in Rungwe and assist them with the planting of avocados. Among other things, RAC will provide development finance necessary to plant and manage avocado plants on the Moravian plantation.

This development finance will attract interest at the rate of 8% per annum and will be deducted from the sale proceeds of the avocados produced from the Moravian Plantation. RAC will have the exclusive rights to purchase all the avocados grown on the Moravian plantation at the ruling market price.

The fair value of the loan receivable balance is approximately the carrying value.

### 19. INVENTORIES

	Group		Company	
	<u>2010</u> TShs '000	<u>2009</u> TShs '000	<u>2010</u> TShs '000	<u>2009</u> TShs '000
Finished products	<b>634,937</b>	1,015,606	-	-
Stores and consumables	<b>1,581,689</b>	1,232,686	-	-
Goods in transit	<b>90,268</b>	47,705	-	-
Impairment provision	<b>(7,907)</b>	(8,939)	-	-
	<b>2,298,986</b>	2,287,058	-	-

The cost of inventories recognised as expense and included in 'cost of sales' amounted to TShs 868 million (2009: TShs 50million).

### 20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	<u>2010</u> TShs '000	<u>2009</u> TShs '000	<u>2010</u> TShs '000	<u>2009</u> TShs '000
Trade receivables	<b>112,550</b>	138,913	-	-
Less: Provision for impairment	-	(4,984)	-	-
Trade receivables-net	<b>112,550</b>	133,929	-	-
Advances to tea growers	<b>333,559</b>	379,022	-	-
VAT recoverable	<b>641,077</b>	173,681	<b>13,700</b>	13,700
Other receivables	<b>47,842</b>	40,107	<b>94</b>	763
Deposits and prepayments	<b>372,056</b>	407,769	<b>1,303</b>	1,303
Due from related parties (Note 32 (iii))	<b>8,166</b>	11,196	<b>8,166</b>	11,196
	<b>1,515,250</b>	1,145,704	<b>23,263</b>	26,962



## NOTES (CONTINUED)

### 20. TRADE AND OTHER RECEIVABLES (continued)

Trade receivables that are less than 14 days outstanding (2009: 14 days) are within the Group's credit period. As of 31 December 2010, trade receivables of TShs 18 million (2009: TShs 134 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The remainder was neither past due nor impaired.

All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated. The fair value of the trade and other receivable balance is approximately the carrying value. The ageing analysis of trade receivables that were past due but not impaired is as follows:

	<u>2010</u> TShs '000	<u>2009</u> TShs '000
1 – 30 days overdue	<b>94,797</b>	133,929
31 to 60 days overdue	<b>17,753</b>	-
Over 60 days	-	-
	<u><b>112,550</b></u>	<u>133,929</u>

Movements on the provision for impairment of trade receivables are as follows:

	<b>Group</b>		<b>Company</b>	
	<u>2010</u> TShs'000	<u>2009</u> TShs'000	<u>2010</u> TShs'000	<u>2009</u> TShs'000
At start of year	<b>4,984</b>	4,984	-	-
Written off during the year	<b>(4,984)</b>	-	-	-
At end of year	-	4,984	-	-

### 21. LOANS RECEIVABLE

Term loan denominated in TShs Wakulima Tea Company Limited	-	-	<b>575,858</b>	1,800,000
Short term loan denominated in US Dollar – Wakulima Tea Company Limited	-	-	-	191,643
Term loan denominated in US Dollar – Rungwe Avocado Company Limited (Note 32 (iii))	-	-	<b>21,310</b>	-
	-	-	<u><b>597,168</b></u>	<u>1,991,643</u>

The dollar loan to Wakulima was fully paid during the year. The fair value of the loan receivable is approximately the carrying value.



## NOTES (CONTINUED)

### 22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	2010	2009
	TShs '000	TShs '000	TShs '000	TShs '000
Cash at bank and in hand	<b>252,263</b>	375,550	<b>9,993</b>	11,770

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

Cash and bank balances	<b>252,263</b>	375,550	<b>9,993</b>	11,770
Bank overdraft (Note 25)	<b>(686,207)</b>	(875,536)	-	-
	<b>(433,944)</b>	(499,986)	<b>9,993</b>	11,770

### 23. TRADE AND OTHER PAYABLES

Trade payables	<b>647,500</b>	266,759	<b>14,577</b>	-
Interest payables	<b>6,703</b>	-	-	-
Other payables and accrued expenses	<b>221,893</b>	864,611	<b>11,435</b>	36,159
Due to directors	<b>10,175</b>	-	<b>10,175</b>	-
Due to related parties (Note 32 (iii))	-	21,310	-	-
Unclaimed dividends	<b>136,296</b>	93,184	<b>136,296</b>	93,184
	<b>1,022,567</b>	1,245,864	<b>172,483</b>	129,343

The fair value of the trade and other payable is approximately the carrying value.

### 24. BORROWINGS

Bank and other borrowings (a)	<b>5,508,908</b>	3,524,689	-	-
Less: Current portion (b)	<b>(1,417,447)</b>	(1,524,779)	-	-
Due after more than 12 months (d)	<b>4,091,461</b>	1,999,910	-	-
(a) This is made up as follows:				
Borrowings (c)	<b>4,822,701</b>	2,649,153	-	-
Bank overdraft (Note 25)	<b>686,207</b>	875,536	-	-
	<b>5,508,908</b>	3,524,689	-	-
(b) Due within one year				
Bank overdraft	<b>686,207</b>	875,536	-	-
Rungwe Small Holder Tea Growers Trust Fund	<b>91,970</b>	339,537	-	-
SCF Fund	<b>20,275</b>	-	-	-
Current portion of bank borrowings	<b>618,995</b>	309,706	-	-
	<b>1,417,447</b>	1,524,779	-	-



## NOTES (CONTINUED)

### 24. BORROWINGS (continued)

	Group		Company	
	2010	2009	2010	2009
(c) This is made up as follows:	TShs '000	TShs '000	TShs '000	TShs '000
CRDB Bank Ltd (i)	2,213,373	2,309,616	-	-
CRDB Bank Ltd (ii)	1,351,249	-	-	-
EACF Loan (iii)	1,145,834	-	-	-
SCF Fund (iv)	20,275	-	-	-
Rungwe Smallholder Tea Growers Trust Fund (v)	91,970	339,537	-	-
	<b>4,822,701</b>	2,649,153	-	-

#### (i) CRDB Bank loan and overdraft

In July 2007, Wakulima Tea Company Limited obtained financing from CRDB Bank Limited to fund the rehabilitation of Mwakaleli factory and paid back the outstanding loan with Standard Chartered Bank Tanzania Limited. The facility amounts to USD 2,050,000, which was fully drawn down as at 31 December 2010. A part of the amount drawn down was used to pay the outstanding loan to Standard Chartered Tanzania Bank Limited in 2007; the balance was used to rehabilitate the Mwakaleli factory. The loan is repayable in 84 equal monthly instalments beginning October 2008. This loan carries an interest rate of 2% above twelve months US dollar LIBOR with a minimum of 7.5% (2009: 8%) per annum calculated on daily debit balances and payable monthly in arrears. The subsidiary also obtained an overdraft facility from CRDB Bank, currently limited to USD 1.5 million (2009: US\$ 1 million) which is jointly secured with the long term facility. The facilities (loan and overdraft) are secured by corporate guarantee and indemnity of the holding Company (TATEPA), a debenture over the Wakulima Tea Company's floating assets and mortgage and debenture on its estates and factory buildings.

#### (ii) CRDB Bank – vehicle loan

In August 2010 Wakulima Tea Company Limited secured a long term facility to finance the purchase of green leaf transport trucks from CRDB Bank Plc. The facility amounts to USD 970,000 and was fully drawn by year end. The loan is repayable in 60 instalments and the facility is expected to expire on 30 September 2014. The loan attracts interest at the rate of 7.5% per annum; the interest rate shall be reviewed yearly. The loan is secured by corporate guarantee and indemnity of the holding Company (Tatepa); a debenture over the Wakulima Tea Company's farms, a first charge fixed and floating mortgage and debenture on its assets and a first charge Chattel Mortgage over motor vehicles to be purchased.

#### (iii) EACF loan

In January 2010, Rungwe Avocado Company Limited obtained financing from Alliance for a Green Revolution in Africa, AGRA, through the Africa Enterprise Challenge Fund, "EACF". EACF is a special partnership initiative of AGRA with funding provided by the African Development Bank (AfDB), the Consultative Group to Assist the Poor (CGAP), the UK's Department for International Development (DFID), and The International Fund for Agricultural Development (IFAD) and the Netherlands Ministry of Foreign Affairs (NMFA).

AGRA awards AECF Funds to successful applicants after demand-led (call for applications) competitive bidding rounds. The focus of the Fund is on the agribusiness sector; access to rural financial services, and information services for these sectors.



## NOTES (CONTINUED)

### 24. BORROWINGS (continued)

#### (iii) EACF loan (continued)

balance is a revenue grant. The repayable loan is specifically meant to finance the establishment of the pack house together with all the necessary machinery and infrastructure required to enable the Company to pack its products. The revenue grant is meant to enable the Company obtain the necessary product certification and other necessary marketing activities that will enable the Company export its avocado fruits and those bought from small holder farmers and extension services to the smallholder farmers.

By year end a total of USD 914,375 was drawn; of which USD 807,313.65 was a repayable loan and USD 107,061.17 was a grant. The loan is interest free and is repayable by 31 December 2014.

The loan is subject to fair valuation. At year end the fair value was as set out below;

	<b>2010</b>	<u>2009</u>
	<b>TShs '000</b>	TShs '000
Repayable loan draw downs	<b>1,173,463</b>	-
Fair value gain	<b>(27,629)</b>	-
<b>Closing balance</b>	<b>1,145,834</b>	-

Assumptions used in determining the fair value are as follows:

- Interest rate applicable had the same facility been obtained from the market 9.5% throughout the loan period,
- Interest charged and paid at the end of each year;
- Repayment of the loan at the end of the year in which it is due.

#### (iv) SCF Fund

In October 2010, Rungwe Avocado Company was awarded a revenue grant amounting to Tshs 84.365 million from the SCF Fund. The proceeds of this grant are to be applied in marketing assistance to South Africa and for technical support to address phytosanitary certification. The South African market is expected to help the Company diversify its market and significantly reduce its marketing costs.

During the year, the Company received a total of Tshs 27 million out of which Tshs 6.250 has been used and credited to the Income Statement; the balance is treated as an interest free loan until it is utilized. The Company expects to draw the balance on this funding / grant during the year 2011.

#### (v) Rungwe Smallholders Tea Growers Trust Fund

In 2008, Wakulima Tea Company Limited obtained a short term loan from the Rungwe Small Holders Trust Fund (the investment vehicle of the minority shareholders in Wakulima) amounting to Tshs 500 million. The loan is denominated in Tanzania shillings and carries an interest rate of 15%. The loan is not secured and is payable on demand. The entire loan amount was drawn on 1 September 2008 and was used to finance working capital and rehabilitation of Mwakaleli factory. The outstanding balance of the loan is expected to be fully repaid in the year 2011.



## NOTES (CONTINUED)

### 24. BORROWINGS (continued)

#### (d) The maturity of the non-current borrowings is as follows:-

	Group		Company	
	2010 TShs '000	2009 TShs '000	2010 TShs '000	2009 TShs '000
Between 1 and 2 years	607,906	309,706	-	-
Between 2 and 5 years	3,014,270	929,117	-	-
Over 5 years	469,285	761,087	-	-
	<b>4,091,461</b>	1,999,910	-	-

In the opinion of the directors, the carrying amounts of borrowings (except for the EACF loan) approximate to their fair values. Fair values are based on discounted cash flows using a discount rate similar to the borrowing rate that the directors expect would be available to the Company and its subsidiary at the balance sheet date.

### 25. BANK OVERDRAFT

Group	Bank	Beneficiary	Overdraft facility limit		Amount utilised	
			2010 US\$	2009 TShs '000	2010 TShs '000	2009 TShs '000
	CRDB Bank Limited	Wakulima Tea Company Ltd	1,500,000	1,500,000	686,207	875,536
			<b>1,500,000</b>	1,500,000	<b>686,207</b>	875,536

This facility was obtained along with the long term facility described under note 24 above and is jointly secured along with the long term loan. The overdraft carries a floating rate of interest of the 12 month LIBOR plus a 2% margin with a minimum of 7.5% (2009:8%) per annum. The interest rate shall be reviewed yearly.

### 26. DEFERRED INCOME TAX LIABILITY

Deferred income taxes are calculated on temporary differences under the liability method using a principal tax rate of 30% (2009:30%). The movement on the deferred income tax account is as follows:

	Group		Company	
	2010 TShs '000	2009 TShs '000	2010 TShs '000	2009 TShs '000
At the beginning of year	556,393	364,869	-	-
Charged / (credited) into the profit and loss account (Note 12)	146,009	191,524	-	-
<b>At the end of year</b>	<b>702,402</b>	556,393	-	-



## NOTES (CONTINUED)

### 26. DEFERRED INCOME TAX LIABILITY (continued)

	Group		Company	
	2010	2009	2010	2009
Details of the deferred tax liability / (asset) are:-	TShs '000	TShs '000	TShs '000	TShs '000
Accelerated tax allowances	359,977	333,854	-	-
Biological asset fair valuation	429,192	397,789	-	-
Other temporary differences	(86,767)	(175,250)	-	-
<b>At the end of year</b>	<b>702,402</b>	<b>556,393</b>	<b>-</b>	<b>-</b>

### 27. EMPLOYEES' GRATUITY

As at 1 January	103,387	78,754	-	-
Interest cost	-	7,088	-	-
Current service cost	196,012	17,545	-	-
Utilization	(39,218)	-	-	-
<b>As at 31 December</b>	<b>260,181</b>	<b>103,387</b>	<b>-</b>	<b>-</b>

The Group Companies have an unfunded non-contributory employee gratuity arrangement (the "Arrangement"), which provides for lump sum payments to its employees on their retirement at the age of 55, based on length of service and salary at retirement and qualifies as a defined benefits plan. A firm of professional actuaries, Alexander Forbes Financial Services of Nairobi, Kenya, carried out a full actuarial valuation of the Arrangement as at 31 December 2010, using the Projected Unit Credit Method. The present value of the accrued (past service) liability in respect of retirement gratuity benefits at 31 December 2010 was TShs 260.18 million. The Group Companies have recognised the full liability at 31 December 2010. The principal assumptions used in the actuarial valuation are:

- (i) Discount rate of 13%;
- (ii) Rate of salary escalation of 10% per annum;
- (iii) Rate of repatriation allowance escalation of 10% per annum
- (iv) Retirement age – 25% at age 55 and the balance at age 60
- (v) Pre retirement mortality – A1949/52 Ultimate

The "notional" Company contribution rate to meet the cost of future accrual of the gratuity benefit is estimated at 8.3% of basic salaries per annum for management and 3.7% of basic salaries per annum for non management. The next valuation is due on 31 December 2013.



## NOTES (CONTINUED)

### 28. COMMITMENTS

#### Capital commitments

The Group had the following capital commitments at the end of the year:

	Group		Company	
	<u>2010</u> TShs '000	<u>2009</u> TShs '000	<u>2010</u> TShs '000	<u>2009</u> TShs '000
Wakulima Tea Company - trucks	<b>306,190</b>	-	-	-
TATEPA	-	-	-	-
Rungwe Avocado Company – Pack shed building and equipment	<b>518,712</b>	-	-	-

#### Operating lease commitments – where a group company is the lessee

The Group Companies have acquired land from the government of the United Republic of Tanzania with lease terms ranging from 33 years to 99 years, the lease terms can be renewed at the end of each term subject to the laws of the country at the time. The Group Companies are obliged to pay annual land rent to the Government so far as it continues to hold and use the land during the lease period. This land remains the property of the Tanzania Government as land under the present jurisdiction can not be owned on a freehold basis, by an individual.

The future aggregate minimum lease payments under a non-cancellable operating lease relating to this land are as follows:

	Group		Company	
	<u>2010</u> TShs '000	<u>2009</u> TShs '000	<u>2010</u> TShs '000	<u>2009</u> TShs '000
Not later than 1 year	<b>1,041</b>	1,041	-	-
Later than 1 year and not less than 5 years	<b>4,163</b>	4,163	-	-
Later than 5 years	<b>87,113</b>	88,153	-	-

### 29. CONTINGENT LIABILITIES

The Company received a demand notice from Tanzania Tea Board for additional cess of TShs 112 million. However, this liability is under dispute and in the opinion of directors is not likely to materialise.



## NOTES (CONTINUED)

### 30. SHARE CAPITAL

Authorised:  
20,000,000 ordinary shares of Shs 25 each

Group		Company	
<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
TShs '000	TShs '000	TShs '000	TShs '000
<b>500,000</b>	500,000	<b>500,000</b>	500,000

#### Group and Company

Number of Issued and fully paid shares

<u>2010</u>	<u>2009</u>
Number	Number
<b>17,857,165</b>	17,857,165

### Share capital and premium

#### Group and Company

At 1 January and 31 December 2010

<u>Share Capital</u>	<u>Share Premium</u>	<u>Total</u>
TShs '000	TShs '000	TShs '000
446,429	3,748,429	4,194,858

### 31. CASH GENERATED FROM OPERATIONS

	Group		Company	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	TShs '000	TShs '000	TShs '000	TShs '000
Profit/(loss) profit before income tax	<b>292,439</b>	(503,756)	<b>(44,163)</b>	(191,541)
Adjustments for:				
Depreciation (Note 15)	<b>659,552</b>	657,997	-	-
Fair value (gain)/loss on biological assets (Note 16)	<b>(104,676)</b>	(32,324)	-	-
Fair value gain on EACF loan	<b>(27,629)</b>	-	-	-
Employees' gratuity	<b>156,794</b>	24,633	-	-
Interest expense	<b>320,808</b>	338,757	-	-
Interest income	<b>(7,319)</b>	(763)	-	(763)
Unrealised exchange loss on term loans	<b>212,585</b>	64,078	-	-
Revenue grant (EACF/SCF)	<b>(156,824)</b>	-	-	-
Gain on disposal of property, plant and equipment	<b>55,719</b>	(578)	-	-
Gain on disposal of investment	<b>(25,834)</b>	-	<b>(25,834)</b>	-
<i>Changes in working capital:</i>				
Inventories	<b>(11,928)</b>	(317,925)	-	-
Biological asset (nurseries)	<b>(22,938)</b>	(17,019)	-	-
Receivables	<b>(369,546)</b>	635,003	<b>3,699</b>	682,394
Payables	<b>(223,297)</b>	(274,275)	<b>43,140</b>	(148,822)
Cash generated from operations	<b>747,906</b>	573,828	<b>(23,158)</b>	341,268



## NOTES (CONTINUED)

### 32. RELATED PARTY TRANSACTIONS AND BALANCES

The Company is controlled by Freshfields Investments Limited. The Company owns two subsidiary companies, Wakulima Tea Company Limited and Rungwe Avocado Company. 30% of Wakulima Tea Company Limited shareholding is owned by Rungwe Smallholders Tea Development Trust Fund, and 18.88% of Rungwe Avocado Company Limited is owned by Robert Clowes. The ultimate parent of the companies in the TATEPA Group is CDC Group Plc, a public limited company incorporated in England & Wales. In addition, a Company shareholder and director, Mr George Theobald, owns Tanganyika Finance Company Limited and has shares in Nomad Tanzania Limited. Also he is a trustee of Selous Rhino Trust. The following transactions were carried out with related parties:

	Group		Company	
	2010 TShs '000	2009 TShs '000	2010 TShs '000	2009 TShs '000
<b>i) Purchase of services</b>				
Tanganyika Finance Company Limited – Management services	<b>890,922</b>	562,426	<b>182,726</b>	88,110

#### ii) Interest on loans

Interest charged to Rungwe Avocado Company Limited

- - **33,255** -

Interest charged to Wakulima Tea Company Limited

- - **265,137** 356,534

#### iii) Year-end balances arising from sale/purchase of goods and services

	Group		Company	
	2010 TShs '000	2009 TShs '000	2010 TShs '000	2009 TShs '000
<b>Receivable from related parties</b>				
Tanganyika Finance Company Limited	<b>8,166</b>	10,900	<b>8,166</b>	10,900
Nomad Tanzania Limited	-	296	-	296
	<b>8,166</b>	11,196	<b>8,166</b>	11,196

#### Payable to related parties

Rungwe Smallholders Tea Development Trust Fund

- 21,310 - -



## NOTES (CONTINUED)

### 32. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

#### Loan receivable from related parties

	Group		Company	
	2010 TShs '000	2009 TShs '000	2010 TShs '000	2009 TShs '000
Wakulima Tea Company Limited	-	-	<b>1,375,858</b>	1,800,000
Wakulima Tea Company Limited	-	-	-	191,643
Rungwe Avocado Company Limited	-	-	<b>661,808</b>	-
Total	-	-	<b>2,037,666</b>	1,991,643
Due within one year			<b>(597,168)</b>	(1,991,643)
Due after one year	-	-	<b>1,440,498</b>	-

#### (iv) Directors and key management's remuneration

Remuneration policy for directors and executives.

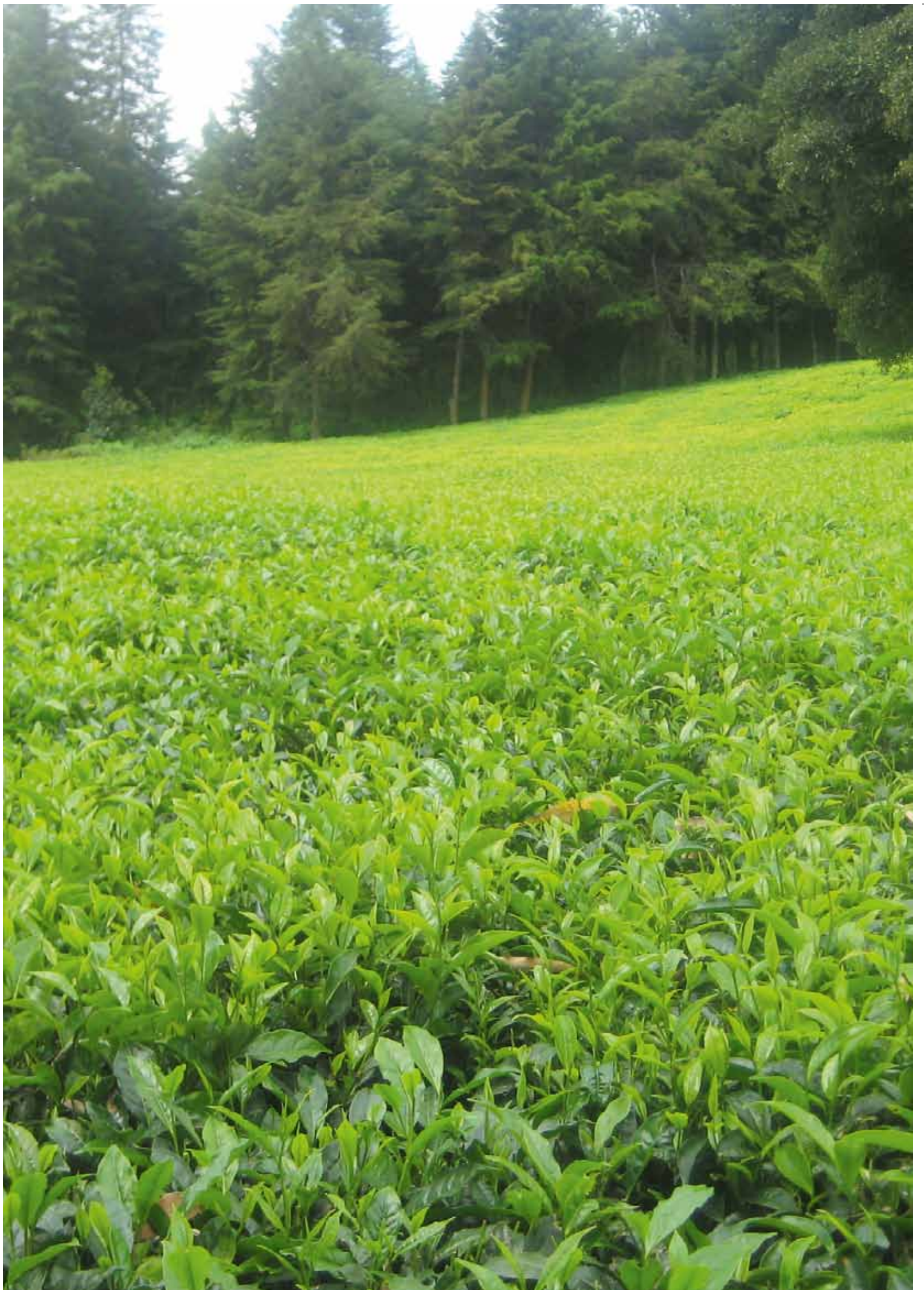
With effect from 1 August 2008 the directors of the Company are paid an annual allowance of US\$6,000 each, while the Chairman is paid US\$8,000. In addition to the annual fees, Directors are entitled to a refund of their travelling expenses to a maximum of US\$500 per sitting as well as payment of an allowance of \$ 500 for attending each meeting to cover their incidental expenses.

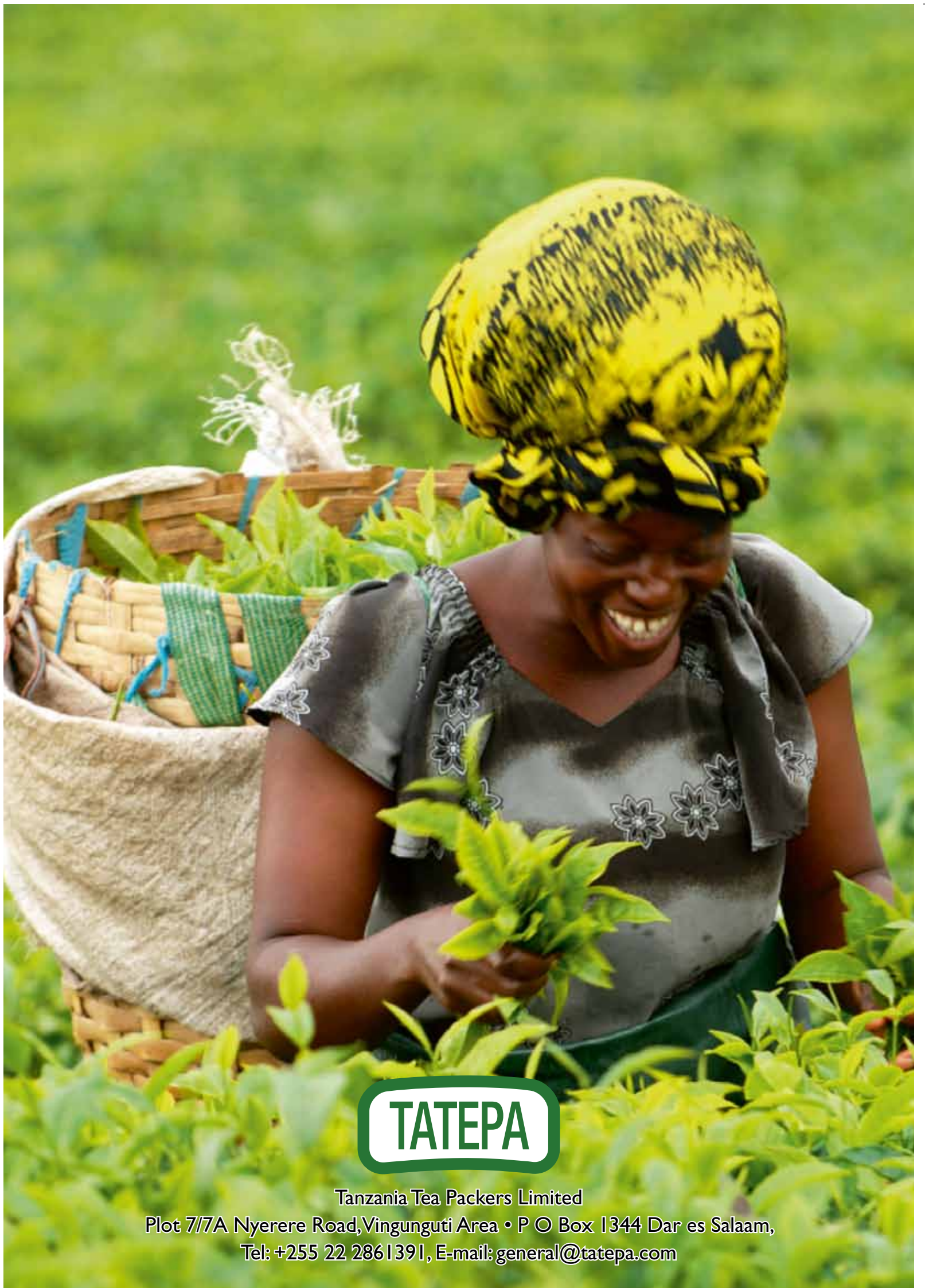
Directors and executive remuneration;

2010	Short term employee benefits			Directors Fees	Sitting allowances	Post employment benefits	Other longterm benefits	Share based payments	Total
	Salary	Bonus	Children school fees						
<b>Non executive directors</b>									
J J Mungai (rtd MP)	-	-	-	12,943	2,115	-	-	-	15,058
W Erio	-	-	-	3,326	-	-	-	-	3,326
S Alfred	-	-	-	6,381	2,115	-	-	-	8,496
K Alexander	-	-	-	9,707	2,115	-	-	-	11,822
G C Theobald	-	-	-	9,707	2,115	-	-	-	11,822
P D Rowland	-	-	-	9,707	1,379	-	-	-	11,086
<b>2009</b>									
Non executive directors									
J J Mungai (rtd MP)	-	-	-	13,147	-	-	-	-	13,147
W Erio	-	-	-	9,860	-	-	-	-	9,860
K Alexander	-	-	-	9,860	-	-	-	-	9,860
G C Theobald	-	-	-	9,860	-	-	-	-	9,860
P D Rowland	-	-	-	9,860	-	-	-	-	9,860









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