

**TOL GASES LIMITED**

**ANNUAL REPORT  
AND  
AUDITED FINANCIAL STATEMENTS**

**31 DECEMBER 2019**

# **TOL GASES LIMITED**

## **ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

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## **TOL GASES LIMITED**

### **COMPANY INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **PRINCIPAL PLACE OF BUSINESS**

Plot No.4, Nyerere Road  
P. O. Box 911  
Dar es Salaam

#### **BANKERS**

NBC Bank Limited  
Industrial Branch  
Nyerere Road  
P. O. Box 40301  
Dar es Salaam  
Tanzania

CRDB Bank Plc  
Vijana Branch  
P. O. Box 10876  
Dar es Salaam  
Tanzania

Equity Bank Tanzania Limited  
P. O. Box 110183  
Dar es Salaam  
Tanzania

UBA BANK  
P.O Box 80514  
Dar es Salaam  
Tanzania

Ecobank Tanzania Limited  
P.O Box 20500  
Dar es Salaam  
Tanzania

Barclays Bank Tanzania Limited  
P.O Box 5137  
Dar es Salaam  
Tanzania

#### **COMPANY AUDITOR**

Ernst & Young  
Certified Public Accountants  
4<sup>th</sup> Floor, Tan House Tower  
Plot No. 34/1 Ursino South  
New Bagamoyo Road  
P.O. Box 2475  
Dar es Salaam  
Tanzania

#### **COMPANY LAWYERS**

Kariwa & Co Advocates  
Kiungani Street No.77  
Off Lumumba Street  
Mkunazini Bldg 1<sup>st</sup> Floor  
P. O. Box 13138  
Dar es Salaam  
Tanzania

Purity Attorneys & Associates  
3rd Floor Maktaba complex  
Bibi Titi/ Maktaba Streets  
P. O. Box 79569  
Dar es Salaam  
Tanzania

# **TOL GASES LIMITED**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

### **1. INTRODUCTION**

The Directors present their report and the audited financial statements for the financial year ended 31 December 2019 which disclose the state of affairs of TOL Gases Limited. The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors as indicated on the statement of financial position.

### **2. INCORPORATION**

TOL Gases Limited is incorporated in Tanzania under Tanzanian Companies Act, 2002 as a public company limited by shares.

### **3. COMPANY'S VISION**

To be the pride of Tanzania in Eastern, Central and Southern African markets for gases, complementing accessories and services.

### **4. COMPANY'S MISSION**

To be the leading, safest and reliable supplier of high-quality gases, complementing accessories and services in Eastern, Central and Southern Africa.

### **5. PRINCIPAL ACTIVITY**

The principal activity of the Company is production and distribution of industrial gases, medical gases and related accessories.

### **6. COMPOSITION OF THE BOARD OF DIRECTORS**

The Directors of the company at the date of this report and who have served since 01 January 2019, unless otherwise stated, are listed below:

<u>Name</u>	<u>Position</u>	<u>Age</u> <u>(years)</u>	<u>Nationality</u>	<u>Appointment</u> <u>/(Resignation)</u>
Mr. Michael Shirima	Chairman	76	Tanzanian	28 April 2014
Mr. Godfrey Urasa	Director	77	Tanzanian	28 April 2014
Mr. Simon Mponji	Director	76	Tanzanian	28 April 2014
Mr. Justin Massawe	Director	39	Tanzanian	28 April 2014
Mr. Selestine Some	Director	44	Tanzanian	1 <sup>st</sup> April 2019
Prof Abraham Temu	Director	61	Tanzanian	24 August 2018
Eng. Joseph Machange	Director	69	Tanzanian	24 August 2018

All Directors were non-executive. The company secretary during the year ended 31 December 2019 was David Mchangilla.

### **7. BOARD COMMITTEES**

#### **AUDIT COMMITTEE**

Mr. Godfrey Urasa	Chairman	77	Tanzanian
Mr. Simon Mponji	Member	76	Tanzanian
Prof Abraham Temu	Member	61	Tanzanian



## TOL GASES LIMITED

### DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

#### 8. DIRECTORS' REMUNERATION

The Directors are paid an allowance for each meeting they attend. Allowances paid during the year are disclosed in Note 27. Additionally, six of the directors, Mr. Michael Shirima, Mr. Godfrey Urasa, Mr. Simon Mponji, Justin Massawe, Prof. Abraham K. Temu and Eng. Joseph Machange hold shares in the company as shown in the table below.

#### 9. SHAREHOLDING

The total number of shares issued at the end of the year 2019 was 57,560,304 (2018: 57,560,304).

Shareholder	Number of shares	%
M/S Erncon Holding Limited	8,017,389	13.9
Ernest Saronga Massawe	6,700,074	11.6
Goodison Fourthy Seven Limited	6,381,167	11.1
Treasury Registrar	3,570,457	6.2
Anorld B.S. Kilewo	3,110,416	5.4
Godfrey Urasa	2,618,030	4.6
Harold Temu	2,507,740	4.4
Michael Shirima	1,680,405	2.9
Lake Chala Safari Lodge	1,430,067	2.5
William M. Lyakurwa	1,099,608	1.9
Joseph C. N. Machange	1,029,584	1.8
Sayed H. Kadri & others	1,015,509	1.8
Justine Massawe	400,100	0.7
Simon Mponji	44,851	0.08
Prof. Abraham K. Temu	5,075	0.009
Others	17,949,832	31.2
<b>TOTAL</b>	<b>57,560,304</b>	<b>100.00</b>

## TOL GASES LIMITED

### DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

#### 10. CAPITAL STRUCTURE

The Company's capital structure for the year under review is shown below:

##### **Authorised Share Capital**

60 million Ordinary Shares of TZS 100 (Tanzanian Shilling One Hundred) each.

##### **Called up and fully paid share capital**

57,560,304 ordinary shares of TZS 100 each (2018: 57,560,304 ordinary shares).

#### 11. CORPORATE GOVERNANCE

##### **Code of Corporate Practice and Conduct**

TOL Gases Limited is committed to the principles of effective corporate governance and the Board is of the opinion that the company currently complies with principles of good corporate governance. For better corporate governance the Board has Audit and Investment committees. Audit committee deals with Audit, Finance, Planning and Administration, while the Investment committee deals with Investments. Following the reassignment of the investment committee members, there was no sitting of the investment committee during the year under review.

##### **The Board of Directors**

The Board of TOL Gases Limited consists of seven Directors. None of the Directors hold executive positions in the company. The Board takes overall responsibility for the company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters and reviewing the performance of management against budgets and business plans. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative for compliance with sound corporate governance principles. The Board is chaired by a Director who has no executive functions. The Board is confident that its members have the knowledge, talent and experience to lead the company. The Non-Executive Directors are independent of management and exercise their independent judgment. With their depth of experience, they add value to Board deliberations.

The Board is required to meet at least four times a year and oversee the management of the business. Although the Chief Executive Officer of the company is designated as Managing Director, he is not a member of the Board of Directors. He reports to the Board and enjoys all executive powers. He is assisted by senior management in the day to day operations of the company. The Managing Director and other Senior Managers are invited to attend Board meetings and meetings of the committees of the Board which facilitate the effective control of all the company's operational activities, acting as a medium of communication and coordination between the various business units. Senior management meets on a regular basis to review the results, operations, key financial indicators and the business strategy of the company. Board meetings are held quarterly to deliberate the results of the company.

##### **Performance evaluation and reward**

Details of the remuneration paid to key management are disclosed in Note 27 to the financial statements. The company benchmarks its reward system with prevailing going rate in the labour market to ensure that it is able to recruit and retain the best available talent. A bonus scheme is in place to ensure collective and individual contribution towards the success of the company is recognised and rewarded.



**11. CORPORATE GOVERNANCE (Continued)**

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 in:

- The safeguarding of the company's assets (including information);
- Compliance with the applicable laws, regulations and supervisory requirements;
- The reliability of the accounting records;
- Business sustainability under normal as well as adverse conditions; and,
- Responsible behaviour towards all stakeholders.

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

**Ethical behaviour**

Compliance with the Code of Conduct is the ultimate responsibility of the Managing Director with day-to-day monitoring delegated to line management with the support of personnel officers. All staff are expected to maintain the highest level of integrity and honesty in dealing with customers, suppliers, service providers and colleagues.

The company's Code of Conduct commits it to the highest standards of integrity, conduct and ethics in its dealings with all parties concerned, including its Directors, managers, employees, customers, suppliers, competitors, investors, shareholders and the public in general. The Directors and staff are expected to fulfil their ethical obligations in such a way that the business is run strictly according to fair commercial competitive practices.

**Financial reporting and auditing**

The Directors accept final responsibility for the preparation of the annual financial statements which fairly present:

- The financial position of the company as at the end of the year under review;
- The financial results of operations; and'
- The cash flows for that period.

The responsibility for compiling the annual financial statements is vested in the management and the financial audit was carried out independently by an external auditor and the company complied with the Companies Act 2002 and other laws of Tanzania.

## TOL GASES LIMITED

### DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

#### 11. CORPORATE GOVERNANCE (Continued)

The external auditors of the company report on whether or not the annual financial statements are fairly presented. The Directors are satisfied that during the year under review:

- Adequate accounting records were maintained;
- An effective system of internal control and risk management, monitored by management, was maintained;
- Appropriate accounting policies, supported by reasonable and prudent judgments and estimates, were used consistently; and
- The financial statements were compiled with in accordance with International Financial Reporting Standards and in the manner required by the Tanzanian Companies Act, 2002.

The Directors are also satisfied that no material event has occurred between the financial year-end and the date of this report which affects the business or has not been reported. The Directors are of the opinion that the company has sufficient resources and commitments at its disposal to operate the business in the foreseeable future. The financial statements have been prepared on a going concern basis.

#### 12. MANAGEMENT

The Management of the Company is led by the Managing Director and is organized in the following functions:

- Finance
- Production and Engineering
- Sales, Marketing and Business Development
- Human Resources and Administration

The key management personnel who served the company during the year ended 31 December 2019 were:

Name	Position
Mr. Daniel Warungu	Managing Director
Mr. John Mbiri	Director of Production and Engineering
Mrs. Juliana Mrikaria	Director of Human Resource and Administration
Mr. Evarist Tilafu	Finance Director
Mr. Daudi Mlwale	Director of Sales, Marketing and Business Development



**13. FUTURE DEVELOPMENT PLANS**

During the financial year 2019, the Company invested in an appropriately sized Air Separation Unit (ASU) commensurate with the oxygen and nitrogen market demand within the Country and the region at large. Being a modern plant, the new plant is very electricity efficient. This added to the high utilisation rate expected, the new plant guarantees efficient cost of production as well as reliability of supplies two of the factors TOL requires not only to ensure enhanced profitability but also to effectively compete for oxygen and nitrogen market with competitors of all sizes. The new plant is expected to be commissioned by the end of September 2020.

The company will also continue to invest in carbon dioxide distribution fleet, by adding five more road tankers and tractor units which will significantly improve fleet turnover further strengthening TOL's position in the market as a reliable CO<sub>2</sub> supplier.

**Future outlook**

The Company has finally made the decision to halt operating the inefficient Aspen 1000 plant and instead has procured a smaller more suitable plant commensurate with Tanzanian as well as regional market. The plant utilisation capacity of the new plant will be as high as 90%. Compared to utilisation capacity of 25% of the current oxygen/nitrogen plant, the new plant will have dramatically low cost of production enabling the Company not only to return a profit but also to compete with competitors of all sizes in the country for the oxygen/nitrogen market.

The ultimate effect of the new plant acquisition is that TOL will have done away with all the loss-making plants thereby assuring shareholders a predictable and sustainable return on investment. Additionally, the Company has been successful in the region's CO<sub>2</sub> market and is in the process of adding yet another Carbon dioxide (CO<sub>2</sub>) plant. This will improve the Company's market position at a time when the market is increasingly becoming price driven. In conclusion, having addressed the runaway costs of production of the ASU products, the Company's profitability and competitiveness has received a major boost. This can only be good news to shareholders in terms of improved earnings going forward.

**14. DIVIDEND**

The directors recommend payment of TZS 1 billion (TZS 17.4 per share) (2018: TZS 17.4) to shareholders as final dividend. In making this proposal the directors have taken into account the financial situation of the Company and its future needs for implementing replacement and improvement projects.

**15. PERFORMANCE FOR THE YEAR**

The detailed financial performance of the company during the year is set out on page 17 showing a profit before tax of TZS 3,086 million (2018: TZS 3,624 million), a decrease of 15% from prior year, while the sales decreased by 6% from the prior year.

**16. SOLVENCY**

The Board of Directors confirms that International Financial reporting standards (IFRS) have been followed and that the financial statements have been prepared on a going concern basis with a reasonable expectation that TOL Gases Limited has adequate resources to continue its operational existence in the foreseeable future.

**DIRECTORS' REPORT (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**17. ACCOUNTING POLICIES**

The annual financial statements are prepared on the underlying assumption of a going concern. The company's accounting policies, which are laid out on pages 21 to 38, are subject to an annual review to ensure continuing compliance with International Financial Reporting Standards.

**18. INVESTMENTS**

The company made investments in property, plant and equipment to the value of TZS 3.280 billion during the year ended 31 December 2019 (2018: TZS 2.116 billion).

**19. EMPLOYEES' WELFARE**

**Management and Employees' Relationship**

A healthy relationship continues to exist between management and employees. There were no unresolved complaints received by Management from the employees during the year. The company is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position, free from discrimination of any kind and without regard to factors like gender, marital status, tribe, religion or disability.

**Training Facilities**

The company sponsors its employees for both short- and long-term courses within and outside the country in various disciplines depending on the corporate needs and financial resources available.

**Medical Assistance**

The company has medical insurance for permanent employees with their families.

**Health and Safety**

The company has a strong health and safety awareness which ensures that a culture of hygiene and safety prevails at all times. All employees and contractors are provided with appropriate personal protective equipment, all of which meets the safety requirements laid down under Occupational Health and Safety Act 2003 and other legislation concerning industrial safety, health and hygiene. The company also organises regular health check-up for its employees who confirm to the applicable statutes and regulations in Tanzania.

**Persons with Disabilities**

It remains the company's policy to accept disabled persons for employment for those vacancies that they are able to fill. Opportunities for advancement are provided to each disabled person when a suitable vacancy arises within the organisation and all necessary assistance is given along with initial training. Where an employee becomes disabled during the course of his or her employment, the company provides suitable alternate employment and necessary training thereof. The company's policy is not discriminatory against people with regards to race, gender, religion or disability.

**Financial Assistance to Staff**

Loans are available to all permanent employees who are members of SACCOS. The Company supports the staff's SACCOS by being guarantor for the loan provided by NSSF and PSSSF.



## **TOL GASES LIMITED**

### **DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **19. EMPLOYEES' WELFARE (Continued)**

##### **Retirement Benefits**

The company makes contributions in respect of staff retirement benefits to a defined statutory contribution plan, i.e. National Social Security Fund and Public Service Social Security Fund. The Company's obligations in respect of these contributions are limited to 10% and 15% respectively of the employees' gross salary, while the employees contribute 10% and 5% of their gross salary.

The Company's employment terms are regularly reviewed to ensure they continue to meet statutory compliance and market conditions. The company communicates with its employees through regular management and staff meetings and through circulars. The Company has continued to maintain a conducive working environment in terms of providing suitable workplace, offices, washrooms and canteen facilities.

#### **20. GENDER PARITY**

The Company is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties. As at 31 December 2019 the company has the ratio of 1:5 female to male employees.

#### **21. RELATED PARTY TRANSACTIONS**

All related party transactions and balances are disclosed in Note 27 to these financial statements.

#### **22. POLITICAL DONATIONS**

The Company does not make political donations.

#### **23. ENVIRONMENTAL CONTROL PROGRAMME**

The Company has an environment policy and takes appropriate pollution control measures to comply with various environment and pollution related statutes in Tanzania.

#### **24. QUALITY**

The Company has a formal quality assurance accreditation program, with all operations being monitored closely and the products are tested in the company Laboratory, Airborne Labs International USA as well as, Tanzania Bureau of Standards (TBS). The company has been certified with ISO 22000.

#### **25. CORPORATE SOCIAL INVESTMENT**

During the year TOL Gases Limited continued to support Tanzanian society through its Corporate Social Responsibility program. The Company participated in the construction of two classrooms at Itagata secondary school in Rungwe district and one classroom at Mpata primary school in Busekelo district.

## TOL GASES LIMITED

### DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

#### 26. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Tanzanian Companies Act, 2002 requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure the Company keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with international financial reporting standards (IFRS) and in the manner required by the Tanzanian Companies Act, 2002. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control. The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.


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

#### 27. AUDITOR

The auditor, Ernst & Young, has expressed their willingness to continue in office as auditor of the Company and is eligible for reappointment. A resolution proposing the re-appointment of Ernst & Young as auditor for the year 2020 will be tabled at the Annual General Meeting.

By order of the Board

Name: JUSTIN MASSAWE Title: DIRECTOR

Signature: 

Name: SIMON MPONJI Title: DIRECTOR

Signature: 

Date: 26-06- 2020



## TOL GASES LIMITED

### DECLARATION OF THE HEAD OF FINANCE FOR THE YEAR ENDED 31 DECEMBER 2019

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) ACT No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with the statement of Declaration issued by the Head of Finance/Accounting responsible for the preparation of financial statements of the entity concerned.

It is the duty of a professional accountant to assist the Board of Directors to discharge the responsibility of preparing the financial statement of the Company showing true and fair view position of the Company in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Tanzania. Full legal responsibility for financial statements rests with the Board of Directors as indicated in the statement of Directors' responsibility.

I, EVARIST MARCEL TILAFU being the Head of Finance for TOL Gases Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31<sup>st</sup> December 2019, have been prepared in compliance with the International Financial Reporting Standards and the Companies Act of Tanzania.

I thus confirm that the financial statements give true and fair view position of TOL Gases Limited in accordance with applicable standards and statutory requirements for the year ended 31 December 2019 and that have been prepared based on the properly maintained financial records.

Signed by:  EVARIST M. TILAFU

Title: Head of Finance

NBAA Membership No. GA 4015

## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholders of TOL GASES LIMITED**

### **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

#### **Opinion**

We have audited the financial statements of TOL Gases Limited ('the Company') set out on pages 17 to 58, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of TOL Gases Limited as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 of Tanzania.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Independent International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provided the basis for our audit opinion on the accompanying financial statements.





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## INDEPENDENT AUDITOR'S REPORT (Continued)

To the Shareholders of TOL GASES LIMITED

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

Key audit matter	How our audit addressed the key audit matter
<b>Accounting for tax positions</b>	
<p>Tax positions were significant to our audit because the assessment process involves judgement.</p> <p>We focused on compliance with tax laws and regulations because breaches of compliance could have a significant effect on the results and financial position of the Company.</p> <p>Tax focus areas included compliance with tax laws and regulations during the year and the financial reporting implication of any uncertain tax positions that have been taken by management and thus could have material impact to the financial statements.</p> <p>Assessing the likely outcome and quantification of tax exposures was one of the judgmental areas our audit was focused on.</p> <p>We also considered the disclosures on taxation in note 21 to the financial statements to be important to the users' understanding of the financial statements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>• Understanding the Company's processes for recording and assessing of tax provisions and contingent liabilities.</li><li>• Determining the completeness and reasonableness of the amounts recognized as tax liabilities and contingencies, including the assessment of the matters in the correspondence with tax authorities and reports of the Company's external tax consultant, and the evaluation of the related tax exposures.</li><li>• Involving our team tax specialists to analyse the tax positions taken and to evaluate the assumptions used to determine tax positions.</li><li>• Assessing relevant historical and recent judgements passed by the tax authority in considering any precedent, as well as assessing legal opinions from the Company's external lawyers.</li><li>• Assessing the adequacy of the Company's disclosure in Note 21 in respect of income tax.</li></ul>

#### Other Information included in the Company's 2019 Directors' Report

The other information comprises the Directors' Report as required by the Companies Act, 2002 of Tanzania. The other information does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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



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## **INDEPENDENT AUDITOR'S REPORT (Continued)**

**To the Shareholders of TOL GASES LIMITED**

### **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)**

#### **Responsibilities of the Directors for the Financial Statements (Continued)**

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 of Tanzania, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.





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## **INDEPENDENT AUDITOR'S REPORT (Continued)**

**To the Shareholders of TOL GASES LIMITED**

### **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)**

#### **Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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## **INDEPENDENT AUDITOR'S REPORT (Continued)**

**To the Shareholders of TOL GASES LIMITED**

### **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, 2002 of Tanzania and for no other purposes.

As required by the Companies Act 12, 2002 of Tanzania, we report to you, based on our audit, that:

- We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- The Directors' Report is consistent with the financial statements;
- Information specified by law regarding directors' remuneration and transactions with the Company is disclosed; and,
- The Company's statements of financial position and statements of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner on the audit resulting in this independent auditor's report is Deokari Mkenda.

**Signed by; Deokari S. Mkenda**  
**ACPA 3438**

**For and on behalf of Ernst & Young**  
**Certified Public Accountants**  
**Dar es Salaam**

**Date:** 29/06/ 2020

TOL GASES LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 TZS '000	2018 TZS '000
Revenue	8	17,252,567	18,433,709
Cost of sales	9	(9,503,163)	(10,087,628)
<b>Gross profit</b>		<b>7,749,404</b>	<b>8,346,081</b>
Other income	10	201,888	80,617
Operating expenses	11	(3,737,859)	(3,631,528)
<b>Operating profit</b>		<b>4,213,433</b>	<b>4,795,170</b>
Finance costs	20	(1,126,772)	(1,171,090)
<b>Profit before tax</b>		<b>3,086,661</b>	<b>3,624,080</b>
Income tax expense	21(a)	(832,690)	(1,007,338)
<b>Profit for the year</b>		<b>2,253,971</b>	<b>2,616,742</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>2,253,971</b>	<b>2,616,742</b>
<b>Basic/Diluted earnings per share (TZS)</b>	14	<b>39.16</b>	<b>45.46</b>





**TOL GASES LIMITED**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2019**

		2019	2018
	Notes	TZS '000	TZS '000
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property, plant and equipment	13(a)	20,555,904	21,907,705
Right-of-use assets	13(b)	49,876	-
Intangible asset	15	334	835
		<b>20,606,114</b>	<b>21,908,540</b>
<b>Current assets</b>			
Inventories	16	5,599,055	4,537,738
Trade and other receivables	17	4,524,264	5,261,134
Cash and bank balances	19	374,537	181,274
		<b>10,497,856</b>	<b>9,980,146</b>
Asset held for sale	13(c)	2,626,360	-
<b>TOTAL ASSETS</b>		<b>33,730,330</b>	<b>31,888,686</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	18	5,756,030	5,756,030
Share premium		6,756,615	6,756,615
Retained Earnings		9,188,878	7,974,355
		<b>21,701,523</b>	<b>20,487,000</b>
<b>Non-current liabilities</b>			
Long term borrowings	20	3,747,465	3,910,000
Lease liabilities	25	39,751	-
Deferred tax liability	21(c)	1,722,551	1,411,950
		<b>5,509,767</b>	<b>5,321,950</b>
<b>Current liabilities</b>			
Trade and other payables	22	1,109,951	1,068,453
Lease liabilities	25	6,016	-
Tax payable	21(b)	521,700	314,456
Bank overdraft	23	3,176,570	3,112,899
Cylinder deposits	24	658,281	563,927
Current portion of loans	20	1,046,522	1,020,000
		<b>6,519,040</b>	<b>6,079,735</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>33,730,330</b>	<b>31,888,686</b>

These financial statements were approved by the board of directors for issue on 05/06/  
2020 and were signed on its behalf by:

Name: JUSTIN MASSAWE Title: DIRECTOR Signature: 

Name: SIMON MPONJI Title: DIRECTOR Signature: 

TOL GASES LIMITED

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium	Retained earnings	Total
	TZS '000	TZS '000	TZS '000	TZS '000
At 1 January 2018	5,756,030	6,756,615	5,405,889	17,918,535
Initial application of IFRS 9 net of tax			(48,276)	(48,276)
Profit for the year			2,616,742	2,616,742
<b>At 31 December 2018</b>	<b><u>5,756,030</u></b>	<b><u>6,756,615</u></b>	<b><u>7,974,355</u></b>	<b><u>20,487,001</u></b>
At 1 January 2019	5,756,030	6,756,615	7,974,355	20,487,001
Dividends declared			(1,039,448)	(1,039,448)
Profit for the year			2,253,971	2,253,971
<b>At 31 December 2019</b>	<b><u>5,756,030</u></b>	<b><u>6,756,615</u></b>	<b><u>9,188,878</u></b>	<b><u>21,701,523</u></b>

**TOL GASES LIMITED**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

		<b>2019</b>	<b>2018</b>
	<b>Notes</b>	<b>TZS '000</b>	<b>TZS '000</b>
<b>OPERATING ACTIVITIES:</b>			
Profit before tax		3,086,661	3,624,080
<b>Adjustment for non-cash items:</b>			
Depreciation and amortisation	13	2,005,328	2,288,720
Depreciation of right-of-use assets	13(b)	1,404	
Amortisation of intangibles	15	501	1,317
Interest paid	20	1,119,296	1,171,090
Gain on disposal of fixed assets	13(a)	2,000	22,994
Unrealised exchange gain (Loss)	10	(26,451)	(2,541)
Corporate tax paid	21	(314,844)	(262,091)
		<b>5,873,895</b>	<b>6,843,570</b>
<b>Movements in working capital</b>			
Increase in inventories		(1,061,317)	(164,659)
Decrease/(Increase) in trade and other receivables		736,870	(1,011,053)
Increase/(decrease) in cylinder deposits		99,657	(93,345)
Increase/(Decrease) in trade and other payables		41,498	(2,317,007)
		<b>(183,293)</b>	<b>(3,586,064)</b>
<b>Net cash flows generated from operating activities</b>		<b>5,690,602</b>	<b>3,257,506</b>
<b>INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment	13(a)	(3,279,715)	(2,116,291)
<b>Net cash flows used in investing activities</b>		<b>(3,279,715)</b>	<b>(2,116,291)</b>
<b>FINANCING ACTIVITIES:</b>			
Bank loan repaid	20	(1,020,000)	(5,657,100)
Bank loan received	20	883,986	5,100,000
Lease paid	25	(12,989)	
Dividend payment		(1,039,448)	-
Interest paid	20	(1,119,296)	(1,171,090)
<b>Net cash flows used in financing activities</b>		<b>(2,307,747)</b>	<b>(1,728,190)</b>
Net decrease in cash and cash equivalent		103,140	(586,975)
Unrealised exchange gain	10	26,451	2,541
Cash and cash equivalents at 1 January		(2,931,624)	(2,347,364)
<b>Cash and cash equivalents at 31 December</b>	19	<b>(2,802,033)</b>	<b>(2,931,624)</b>



## **TOL GASES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **1. CORPORATE INFORMATION**

The Company is incorporated in Tanzania under the Companies Ordinance Cap.212 (Now Companies Act No. 12 of 2002).

The principal activity of the company is production and distribution of industrial gases, medical gases and related accessories.

#### **2. BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Tanzanian Shillings (TZS) and all values are rounded to the nearest thousand (TZS '000') except when otherwise indicated.

##### **Going concern**

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the company will continue in operation for at least one year from the date of the audit report and will be able to realize its assets and discharge its liabilities in the ordinary course of business.

##### **Statement of compliance**

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

#### **3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

##### **New standards and amendments and interpretations that were effective during the year**

All new and amended standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2019 have been adopted by the Company. Of those, the following has had an effect on the Company's financial statements:

##### **IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases - incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

**New standards and amendments and interpretations that were effective during the year (Continued)**

**IFRS 16 Leases (Continued)**

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases under IAS 17 and IFRIC 4 at the date of initial application.

The Company has a lease arrangement for the land. The land is leased from the government with specific time periods up to 99 years. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases (leases with a lease term of 12 months or less). The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

**Leases previously accounted for as operating leases**

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Accounting for depreciation of right-of-use assets and interest expense has been disclosed under Leases on page 36.

## TOL GASES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

#### 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

**New standards and amendments and interpretations that were effective during the year (Continued)**

##### **IFRS 16 Leases (Continued)**

The Company also applied the available practical expedients:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application

The adoption of IFRS 16 had no significant impact on the Company's retained earnings or its cash flows.

Refer to Notes 13(b) and 25 for further details on right-of-use assets and lease liabilities respectively.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as shown below:

	TZS'000
Operating lease commitments as at 31 December 2018	
Weighted average incremental borrowing rate as at 1 January 2019	-
	15.49%
<b>Discounted lease commitments as at 1 January 2019</b>	<b>-</b>
<hr/>	
<b>Add: Present value of lease commitments not included in operating lease commitments as at 31 December 2018*</b>	<b>51,280</b>
<b>Discounted operating lease commitments as at 1 January 2019</b>	<b>51,280</b>

\*-The lease commitments related to annual rent payment for the land titles that client possesses, were not included as part of the lease commitments as management assessed in aggregate to be of low value and therefore did not warrant a disclosure in the financial statements.



## **TOL GASES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)**

**New standards and amendments and interpretations that were effective during the year (Continued)**

##### **IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Company.

#### **4. STANDARD ISSUED BUT NOT YET EFFECTIVE:**

The other new and amended standards issued but not yet effective, and not mentioned above, are not expected to have any impact on the Company's financial statements.

#### **5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Uncertainty about these assumptions and estimates could require a material adjustment to carrying amount of the asset or liability affected in the future periods. During the year, there were no significant accounting judgements that were applied in preparation of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**  
**(Continued)**

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

**Provision for expected credit losses of trade receivables**

The Company uses a provision matrix to calculate Expected Credit Losses (ECL) for trade receivables. The provision rates are based on days past due. The provision matrix takes into account Company's historical observed default rates experience and adjust with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The information about the expected credit losses and credit risk on the Company's trade receivables is disclosed in Note 17 and Note 28.

**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the year of operation.

**a) Revenue recognition**

Revenues from operations consist of revenue from sale of goods and services. Revenue represents income arising in the course of an entity's ordinary activities, which leads to an increase of economic benefits during the accounting period.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. The Company applied the portfolio approach in assessing the contracts. Revenue is stated net of value-added tax (VAT).

The five-step model stipulated in IFRS 15 *Revenue from contracts with customers* is applied when accounting for revenue from contracts with customers. The Company accounts for a revenue contract with a customer only when all the following criteria are met:

- The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- The Company can identify each party's rights regarding the goods or services to be transferred;
- The Company can identify the payment terms for the goods or services to be transferred;



## **TOL GASES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **a) Revenue recognition (Continued)**

- The contract has commercial substance (i.e., the risk, timing or amount of future cash flows is expected to change as a result of the contract); and
- It is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Revenue from sale of goods is recognized at the point in time when control of the goods is transferred to the customer, generally on delivery of the equipment.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of goods, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer, if any. Currently, the Company does not sale equipment to customers or have contracts with customers that have significant financing components.

##### **Contract balances**

###### ***Contract assets***

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

###### ***Trade receivables***

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to the accounting policies on financial assets.

###### ***Contract liabilities***

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Interest and similar income and expenses**

For all financial instruments measured at amortized cost, interest income or expense is recorded at the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as 'other operating income'.

**Property, plant and equipment**

Property, plant and equipment are stated at cost net of accumulated depreciation and accumulated impairment losses, if any. Such costs include the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are charged to profit or loss as and when incurred.

Depreciation on property, plant and equipment is computed on a straight-line method over the estimated useful lives of the assets. The annual rates of depreciation used are:

• Buildings	2%
• Plant and machinery	5 -10%
• Cylinders	4%
• Office equipment	10 -33%
• Motor vehicles	20 - 25%

Land is not depreciated since the useful life is considered to be indefinite. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.



## TOL GASES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

#### 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition is accounted for as follows:

##### ***Raw materials:***

Cost is determined by weighted average cost basis.

##### ***Finished goods and work in progress:***

Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

##### **Employees' benefits**

All of the Company's employees are either members of the National Social Security Fund ("NSSF") or Public Service Social Security Fund (PSSSF), which are defined contribution plans. All employees must be a member of at least one of the aforementioned. The Company and employees both contribute 10% of the employees' gross salaries to the NSSF. For PSSSF, the Company and employees contribute 15% and 5% respectively of the employees' basic salaries to the scheme.

##### **Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks, cash on hand and short-term deposits with a maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

##### **Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of non-financial assets (Continued)**

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

**Taxation**

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised outside profit or loss is recognised outside profit or loss in correlation to the underlying transaction either in other comprehensive income or directly in equity.

*Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Taxation (Continued)**

*Deferred tax (Continued)*

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The entity assesses the lease asset and lease liability together for the purpose of recognising deferred tax as a single transaction and therefore there is no temporary difference on initial recognition. Temporary differences that arise subsequently as the lease asset is depreciated and lease liability is reduced do not qualify for the exemption. As a result, the tax impact of the lease transaction is reflected in the financial statements.

*Value Added Tax*

Revenues, expenses and assets are recognised net of the amount of Value Added Tax except:

- Where the Value Added Tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the Value Added Tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,
- Receivables and payables that are stated with the amount of Value Added Tax included.

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



6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments – initial recognition and subsequent measurement**

**(i) Financial assets**

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section (b) *Revenue recognition*.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial instruments (Continued)**

**Financial assets (Continued)**

*Subsequent measurement*

For purposes of subsequent measurement, the Company's financial assets available are classified as Financial assets at amortised cost (Debt instruments).

*Financial assets at amortised cost (debt instruments)*

The Company measures financial assets at amortised cost if both of the following condition is met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include trade and other receivables and bank balances.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, Or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments (Continued)**

**Financial assets (Continued)**

The Company considers a financial asset in default when contractual payments are 90 days past due and have been monitored for an additional period of 275 days. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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

*Subsequent measurement*

After initial recognition, trade and other payables, and interest-bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

*Derecognition*

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

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Loans and borrowings**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss and other comprehensive income.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite life is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised

The company's software is related to accounting package and related costs. The useful life of the Company's software is 3 years.

**Cylinder deposits**

Compressed gases must be contained in the company's cylinders which are specifically made to accommodate the required pressure of 200 bars depending on the different types of gases. Cylinders are treated as non-current assets which are given to customers with the product who in turn pay a refundable deposit equivalent to the prevailing market value of each cylinder. Amount paid by a customer as security deposit for the cylinders is refundable upon return of the cylinder.

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Foreign currency translation**

*Functional and Presentation Currency*

The company's financial statements are presented in Tanzanian Shillings (TZS), which is also the company's functional currency.

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the company at the spot rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the spot rate of exchange ruling at the reporting date. All differences arising from settlement and translation of monetary items are recognised in other income in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

**Accounting for leases**

The company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

For any new contracts entered into on or after 1 January 2019, the company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the company
- the company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the company has the right to direct the use of the identified asset throughout the period of use

The company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

*Measurement and recognition of leases as a lessee*

At lease commencement date, the company recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting for leases (Continued)**

The company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term which is 99 years. The company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the company incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

**Lease liabilities**

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

**Non-current assets held for sale**

The Company classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

## **TOL GASES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Non-current assets held for sale (Continued)**

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment assets are not depreciated or amortised once classified as held

for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

#### **7. INTERNAL REPORTING**

The Company's revenue is derived from sale of goods (as disclosed in Note 8) and the Board of Directors relies primarily on revenue from sale of goods to assess performance. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the statement of profit or loss and other comprehensive income. Management monitors the operating results of its business units as one company for the purpose of making decisions about resource allocation and performance assessment. Assessment for each department is done by analysing expenditures incurred compared to approved budget. Day to day decision making and implementation of the budget is done by management through monthly meetings.



**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019	2018
	TZS '000	TZS '000
<b>8. REVENUE</b>		
Industrial gases	16,514,526	17,582,797
Accessories	738,041	850,912
	<b>17,252,567</b>	<b>18,433,709</b>
<b>9. COST OF SALES</b>		
<b>Direct Cost</b>		
Raw material	808,049	1,134,694
Direct labour (Note 12)	1,119,836	1,317,466
Transport costs	3,518,303	2,865,180
Depreciations of assets involved in the production	1,896,561	2,175,694
Overheads	1,125,881	863,046
Electricity and generator	1,034,533	1,731,548
	<b>9,503,163</b>	<b>10,087,628</b>
<p>The makeup of the direct cost consists of TZS 1,897 Million (2018: TZS 2,176 million) which is part of the total depreciation cost. This depreciation is directly associated with the production.</p>		
<b>10. OTHER INCOME</b>		
Interest, installation and fixing of plants*	123,407	29,057
Realized foreign exchange gain	50,030	47,282
Profit on sale of fixed assets	2,000	1,737
Unrealized foreign exchange gains	26,451	2,541
	<b>201,888</b>	<b>80,617</b>
<p>*-Interest, installation and fixing of the plants is related to interest income received from fixed deposits as well as other ad-hoc services provided to customers.</p>		
<b>11(a). OPERATING EXPENSES</b>		
Audit fees	99,281	71,895
Realized forex losses	79,856	31,726
Legal and professional fees	135,392	102,682
Depreciation	110,172	113,027
Amortisation	501	1,317
Staff cost (Note 12)	2,455,550	2,308,384
Bank charges	34,717	28,042
Administration cost	822,390	974,455
	<b>3,737,859</b>	<b>3,631,528</b>

The depreciation cost of TZS 110 Million (2018: TZS 114 Million) is part of the total depreciation cost of TZS 2,005 Million (2018: TZS 2,289 Million) as disclosed on the note 13(a).

**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	<u>2019</u>	<u>2018</u>
	TZS '000	TZS '000
<b>11(b). FINANCE COSTS</b>		
Interest expense on lease liabilities (Note 25)	7,476	-
Interest expense on borrowings and overdraft (Note 20)	1,119,296	1,171,090
	<u><b>1,126,772</b></u>	<u><b>1,171,090</b></u>
<b>12. STAFF COST</b>		
Salaries and wages	2,229,247	2,360,761
Statutory deductions	364,594	368,262
Medical expenses	203,575	221,850
Gratuity	120,969	216,414
Other staff costs*	657,000	458,564
	<u><b>3,575,386</b></u>	<u><b>3,625,850</b></u>
Direct labour	1,119,836	1,317,466
Operating expenses	2,455,550	2,308,384
	<u><b>3,575,386</b></u>	<u><b>3,625,850</b></u>

\* -Other staff costs consist of costs such as transportation costs, uniforms, trainings , and food that is provided to all staff without discrimination.



**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**13.(a) PROPERTY, PLANT AND EQUIPMENT**

	Land	Building	Plant & machinery	Cylinders	Motor vehicles	Office equipment	Work in progress	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
<b>Cost</b>								
At 1 January 2019	737,101	2,485,737	22,356,793	5,242,885	6,786,742	945,639	217,167	38,772,064
Additions		8,225	206,560	4,862	416,647	39,871	2,603,724	3,279,889
Reclassification to Held for sale			(8,335,401)					(8,335,401)
Transfer			727,313	302,792			(1,030,105)	-
Disposal					(23,685)			(23,685)
<b>At 31 December 2019</b>	<b>737,101</b>	<b>2,493,962</b>	<b>14,955,266</b>	<b>5,550,539</b>	<b>7,179,704</b>	<b>985,510</b>	<b>1,790,786</b>	<b>33,692,868</b>
<b>Accumulated depreciation</b>								
At 1 January 2019	-	476,795	10,159,947	1,164,211	4,337,578	725,828	-	16,864,360
Charge for the year	-	47,973	691,321	198,393	999,597	68,045	-	2,005,329
Held for sale			(5,676,841)					(5,676,841)
Disposal	-	-		-	(23,685)		-	(23,685)
<b>At 31 December 2019</b>	<b>-</b>	<b>524,768</b>	<b>5,174,427</b>	<b>1,362,605</b>	<b>5,313,490</b>	<b>793,873</b>	<b>-</b>	<b>13,169,163</b>
<b>Carrying value</b>								
At 31 December 2019	737,101	1,969,194	9,780,838	4,187,934	1,866,214	191,637	1,790,786	20,523,704
At 31 December 2018	737,101	2,008,941	12,196,846	4,078,674	2,449,164	219,810	217,167	21,907,705

The plant and machinery installed on industrial property Plot No.41, Nyakato Industrial Area, Mwanza City and Plot No. 4 Pugu Industrial Area, Dar es Salaam are held as security for the loans granted by Barclays Bank Tanzania Limited. The Bank also holds legal mortgage over Company's property with Title No. 937 MZLR (LO No. 67760) Nyakato area and Title No. 186068/25 (LO No. 282480) Dar es Salaam. The Aspen 1000 plant with a carrying amount of TZS 2.6 billion has been reclassified as held for sale following the company's decision of replacing it with a new plant.

**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**13.(a) PROPERTY, PLANT AND EQUIPMENT (Continued)**

	Land	Building	Plant & machinery	Cylinders	Motor vehicles	Office equipment	Work in progress	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
<b>Cost</b>								
At 1 January 2018	737,101	2,469,177	20,791,777	3,910,476	6,652,365	869,949	1,275,960	36,706,806
Additions	-	16,560	248,295	1,332,409	185,409	75,690	257,928	2,116,291
Transfer	-	-	1,316,721	-	-	-	(1,316,721)	-
Disposal	-	-	-	-	(51,032)	-	-	(51,032)
<b>At 31 December 2018</b>	<b>737,101</b>	<b>2,485,737</b>	<b>22,356,793</b>	<b>5,242,885</b>	<b>6,786,742</b>	<b>945,639</b>	<b>217,167</b>	<b>38,772,065</b>
<b>Accumulated depreciation</b>								
At 1 January 2018	-	429,002	9,183,593	1,008,164	3,333,323	649,595	-	14,603,678
Charge for the year	-	47,793	976,354	156,047	1,032,293	76,233	-	2,288,720
Disposal	-	-	-	-	(28,038)	-	-	(28,038)
<b>At 31 December 2018</b>	<b>-</b>	<b>476,795</b>	<b>10,159,947</b>	<b>1,164,211</b>	<b>4,337,578</b>	<b>725,828</b>	<b>-</b>	<b>16,864,360</b>
<b>Carrying value</b>								
At 31 December 2018	737,101	2,008,941	12,196,846	4,078,674	2,449,164	219,810	217,167	21,907,705
At 31 December 2017	737,101	2,040,174	11,608,184	2,902,312	3,319,042	220,353	1,275,960	22,103,128

The plant and machinery installed on industrial property Plot No. 41, Nyakato Industrial Area, Mwanza City and Plot No. 4 Pugu Industrial Area, Dar es Salaam are held as security for the loans granted by Barclays Bank Tanzania Limited. The Bank also holds legal mortgage over Company's property with Title No. 937 MZLR (LO No. 67760) Nyakato area and Title No. 186068/25 (LO No. 282480) Dar es Salaam.



**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**13(b). RIGHT OF USE ASSETS**

	<u>2019</u> TZS'000'	<u>2018</u> TZS'000'
<b>Cost</b>		
At 1 January	-	-
Impact of initial application of IFRS 16	51,280	-
At 1 January – Restated	51,280	
Additions		-
<b>At 31 December</b>	<u><b>51,280</b></u>	<u><b>-</b></u>
<b>Depreciation</b>		
At 1 January	-	-
Charge for the year	1,404	-
<b>At 31 December</b>	<u><b>1,404</b></u>	<u><b>-</b></u>
<b>Net carrying amount</b>	<u><b>49,876</b></u>	<u><b>-</b></u>

The right-of-use assets comprise of lease arrangements for leasehold land.

**13(c). ASSETS HELD FOR SALE**

In 2019, the Board of Directors committed to a plan to sell an Aspen 1000 plant and replace it with another new Air Separation Unit (ASU) which is more effective compared to the current and foreseeable demand in the market.

In line with International Financial Reporting Standards (IFRSs), management has done impairment assessment to check whether the value of the asset as shown in the statement of financial position at reporting date exceeds its recoverable amount. The recoverable amount was determined as fair value less costs of disposal based on the available information at reporting date and was estimated at TZS 2.6 billion.

The carrying amount of the asset as of 31 December 2019 is TZS 2.66 billion, which approximate to the fair value of the asset less costs of disposal. There has been four different asking prices the highest being TZS 2.8 billion and the lowest was TZS 2.6 billion. The company is marketing the plant and is aggressively looking for a potential buyer. It is highly probable that sale of this property will be concluded by end of 31 December 2020.

**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**14. EARNINGS PER SHARE**

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year. There were no transactions leading to dilutive effect.

Net profit attributable to shareholders	2,253,971,000	2,616,742,000
Weighted average number of ordinary shares	57,560,304	57,560,304
Basic earnings per share (TZS)	<b>39.16</b>	<b>45.46</b>
Basic and diluted earnings per share (TZS)	<b>39.16</b>	<b>45.46</b>
	<b>2019</b>	<b>2018</b>
	<b>TZS '000</b>	<b>TZS '000</b>

**15. INTANGIBLES**

**Cost**

At 1 January	171,802	171,802
Additions	-	-
<b>31 December</b>	<b>171,802</b>	<b>171,802</b>

**Accumulated amortization**

At 1 January	170,967	169,650
Charge for the year	501	1,317
<b>31 December</b>	<b>171,468</b>	<b>170,967</b>

**Net carrying amount**

<b>334</b>	<b>835</b>
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The intangible asset consists of computer software. The amortisation of intangible asset has been disclosed under operating expense (Note 11).

**16. INVENTORIES**

Raw materials	1,898,945	1,671,178
Finished goods	866,412	783,493
Welding machines equipment	2,517,030	1,782,939
Medical machines equipment	316,668	300,128
	<b>5,599,055</b>	<b>4,537,738</b>

The raw material inventory of TZS 808 Million (2018: TZS 1,135 Million) was recognised to cost of sales from the inventories.



**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019	2018
	TZS '000	TZS '000
<b>17. TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	4,010,826	4,853,460
Staff receivables	115,723	58,335
Prepayments	858,103	887,620
	<u>4,984,652</u>	<u>5,799,425</u>
Expected credit loss	(460,388)	(538,291)
	<u><b>4,524,264</b></u>	<u><b>5,261,134</b></u>

Trade receivables are non-interest bearing and are generally on 30-90 days terms.

As at 31 December 2019 trade receivables amounting to TZS 460 million (2018: TZS 541 million) were impaired and fully provided for.

Movement on the provision for expected credit loss:

At 1 January	538,292	380,385
Initial application of IFRS 9	-	68,967
At 1 January - Restated	<u>538,292</u>	<u>449,352</u>
(Release)/ Charge for the year	<u>(77,904)</u>	<u>88,940</u>
<b>At 31 December</b>	<u><b>460,388</b></u>	<u><b>538,292</b></u>

As at 31 December, the ageing analysis of trade and other receivables is as follows:

Up to 30 days	2,123,374	2,618,399
31 - 60 days	572,316	908,285
61 - 90 days	312,686	346,254
Over 90 days	1,002,450	980,522
	<u><b>4,010,826</b></u>	<u><b>4,853,460</b></u>

Trade and other receivables comprise of the following amounts denominated in foreign currency (USD):

Amount is in TZS	887,381	962,087
	<u><b>887,381</b></u>	<u><b>962,087</b></u>

**18. SHARE CAPITAL**

**Authorized**

60 million Ordinary Shares of TZS 100 each	<u><b>6,000,000</b></u>	<u><b>6,000,000</b></u>
57,560,304 (2018: 57,560,304 ) Ordinary Shares issued and fully paid	<u><b>5,756,030</b></u>	<u><b>5,756,030</b></u>

**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019	2018
	TZS '000	TZS '000
<b>20. LOANS AND BORROWINGS</b>		
<b>Absa Bank Limited facility.</b>		
The Company has a term loan facility amounted to TZS 5.1 billion from Absa Bank Tanzania Limited. The loan was secured on 9th August 2018 which is repaid in sixty (60) equal monthly instalments. Interest rate is 14% p.a, accrues daily and paid monthly in arrears.		
At 01 January	4,930,000	5,487,100
Loan received during the year	-	5,100,000
Repayment during the year	(1,020,000)	(5,657,100)
<b>As at 31 December</b>	<b>3,910,000</b>	<b>4,930,000</b>
Long term portion	2,890,000	3,910,000
Current portion	1,020,000	1,020,000
<b>Total loan</b>	<b>3,910,000</b>	<b>4,930,000</b>

**The Securities for the loans include:**

- (i) Loan mortgage over the Company's industrial landed property - Plot No. 41 Nyakato Industrial Area in Mwanza city;
- (ii) Security over machinery and equipment installed in landed property - Plot No. 41 Nyakato Industrial Area in Mwanza city;
- (iii) Legal mortgage over Company's industrial landed property - Plot No. 4 Pugu Industrial Area in Dar es Salaam City
- (iv) Security over machinery and equipment installed in landed property - Plot No. 4 Pugu Industrial Area in Dar es Salaam City.

There were no breaches or default of loans covenant for the year ended 31 December 2019.

**CRDB Bank Plc Facility:**

On 26<sup>th</sup> September 2019 the company obtained a term loan facility amounted to TZS 5.52 billion from CRDB Bank PLC for the purpose of acquiring new ASU plant and improving the distribution fleet for CO2. The loan will be repaid in sixty (60) equal monthly instalments. Interest rate is 14% p.a, accrues daily and paid monthly in arrears with a grace period of one year.

At 01 January	-	-
Loan received during the year	883,986	-
Repayment during the year	-	-
<b>As at 31 December</b>	<b>883,986</b>	-
Long term portion	857,464	-
Current portion	26,522	-
<b>Total loan</b>	<b>883,986</b>	-
<b>Total long-term loan:</b>		
Absa Bank Limited	2,890,000	3,910,000
CRDB Bank PLC	857,465	-
	<b>3,747,465</b>	<b>3,910,000</b>
<b>Total current portion loan:</b>		
Absa Bank Limited	1,020,000	1,020,000
CRDB Bank PLC	26,522	-
	<b>1,046,522</b>	<b>1,020,000</b>



**TOL GASES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019	2018
	TZS '000	TZS '000
<b>21. TAXATION</b>		
<b>a) Income tax expense</b>		
Current income tax charge	522,088	578,101
Deferred tax charge	310,602	273,313
Current income tax – prior years	-	155,924
Income tax reported in the statement of profit or loss	<u>832,690</u>	<u>1,007,338</u>

A reconciliation between tax expense and accounting profit multiplied by Tanzania Corporate tax for the year ended 31 December 2019 and 2018 as follow:

<b>Accounting before income tax</b>	3,086,661	3,624,080
At Tanzania's statutory income tax rate 30% (2018: 30%)	<u>(925,998)</u>	<u>(1,087,224)</u>

**Non-deductible expenses for tax purpose**

Net income not allowed for tax purposes	(43,248)	-
Current income tax – prior years	-	(155,924)
Previous year over/under provision	-	235,810
	<u>(832,690)</u>	<u>(1,007,338)</u>

**b) Tax payable**

Balance at 1 January	314,456	(157,479)
Tax charge for the year	522,088	578,101
Repayment made	(314,844)	(262,091)
Additional tax from the tax audit 2013- 2016	-	155,924
	<u>521,700</u>	<u>314,456</u>

Tax assessments have been made up to 2016. The Tax authority has up to five (5) years to make final assessment.

**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019	2018
	TZS '000	TZS '000
<b>21. TAXATION (Continued)</b>		
<b>c) Deferred tax</b>		
Deferred tax relates to the following :-		
Accelerated depreciation for tax purposes	5,637,484	4,861,864
Unrealised exchanges gain	26,451	2,541
Movement in provision for expected credit losses	77,904	(88,940)
	<u>5,741,839</u>	<u>4,775,465</u>
Deferred tax( asset)/liability thereon at 30%	1,722,551	1,432,640
Deferred tax on initial application of IFRS 9	-	(20,690)
	<u>1,722,551</u>	<u>1,411,950</u>
Less: Opening deferred tax	1,411,950	1,159,327
Deferred tax expense	<u><u>310,601</u></u>	<u><u>273,313</u></u>

**Final tax assessments**

The normal procedure for agreeing the final income tax liability in Tanzania involves the Company filing its final income tax returns with the Tanzania Revenue Authority (TRA) followed by TRA performing its own review of the Company's submissions and issuing a notice of final income tax assessment to the Company.

The final income tax assessment as determined by TRA after its review and possible site visits may differ from the assessments determined by the Company. The tax laws stipulate procedures for the Company to object and appeal against TRA assessments. It is common that the timeframe from the Company's own submission of final annual tax returns and TRA tax assessments may take several months or years.



**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019	2018
	TZS '000	TZS '000
<b>22. TRADE AND OTHER PAYABLES</b>		
Trade payables	75,791	13,378
Other payables	84,554	75,227
Accrual expenses	235,799	578,900
VAT Payables	542,286	291,825
Statutory deduction (PAYE & NSSF)	171,521	109,123
	<b><u>1,109,951</u></b>	<b><u>1,068,453</u></b>

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are normally settled between 15 to 45 days after date of invoice. Other payables are non-interest bearing and have an average term of six months.

Trade and other payables comprise of the following amounts denominated in foreign currency:

United States Dollars	68,464	44,137
Sterling Pound (GBP)	64,406	68,823
Total - Tanzania Shillings	<b><u>132,870</u></b>	<b><u>112,960</u></b>

**23. BANK OVERDRAFT**

The Company had secured an overdraft facility with CRDB Bank of TZS 3.2 billion at an interest rate of 14.5% per annum accruing daily on an outstanding balance and is charged monthly.

Outstanding balance as at 31 December	<u>3,176,570</u>	<u>3,112,899</u>
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**24. CYLINDER DEPOSITS**

Cylinder deposits are made up of payments made by customers for use of cylinders to store gas. The deposit is refundable to customers upon return of the cylinders.

The movements of cylinder deposit accounts during the year was as follows:

Balance as at January	563,927	657,271
Deposits made during the year	221,748	99,600
Reallocation	-	(159,944)
Refunds made during the year	(127,394)	(33,000)
	<b><u>658,281</u></b>	<b><u>563,927</u></b>

**25. LEASE LIABILITIES**

At 1 January	-	-
At Impact of initial application of IFRS 16	51,280	-
At 1 January – Restated	51,280	-
Interest accretion	7,476	-
Payments – principal	(12,989)	-
<b>At 31 December</b>	<b><u>45,767</u></b>	<b><u>-</u></b>
Current portion	6,016	-
Non-current portion	39,751	-
<b>Total</b>	<b><u>45,767</u></b>	<b><u>-</u></b>

The weighted average discount rate applied as at year-end was 15.49% per annum.

**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	<u>2019</u>	<u>2018</u>
	TZS '000	TZS '000
<b>26. EMPLOYEES PENSION</b>		
The company operates a defined contribution plan through a pension scheme to which both the employer and employee contribute. Some employees are members of the National Social Security Fund (NSSF) and others are members of Public Service Social Security Fund (PSSSF)		
The employer and the local employee, each contribute 10% to NSSF while under PSSSF the employee contributes 5% and employer 15%.		
During the year, the company's contribution amounted to:		
NSSF and PSSSF	<u>244,854</u>	<u>167,695</u>

**27. RELATED PARTY TRANSACTIONS**

The Company, in the normal course of business, enters into various transactions with related parties. The Company transacts with the holding company and other entities related to it by virtue of common shareholding.

There are no doubtful debts provisions made in respect of amounts due to/from related parties and no bad debts incurred during the year in these balances.

During the year, the company entered into transactions with key management personnel as presented below:

**Key management remuneration**

Short term benefits	1,012,585	1,042,926
Other long-term benefits	143,351	136,238
Directors remuneration	18,000	18,000
	<u>1,173,936</u>	<u>1,197,164</u>

Key management personnel are those with responsibility for planning, directing and controlling the activities of the Company, specifically the directors of the Company including the Managing Director, and all Heads of Department and the extended management team.



# TOL GASES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise bank loans and overdrafts, trade and other payables, trade and other receivables, cash and bank balances and cylinder deposits. The Company has various financial assets such as trade receivables, cash and short-term deposits, which arise directly from its operations. The main risks arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, currency risk and credit risk. The board reviews and agrees policies for managing each of these risks which are summarised below:

#### a) Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available and thus the Company being unable to fulfil its existing and future cash flow obligations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Company policy is that not more than 70% of borrowings should mature in the following 12 –month period (2018:70%). The Company assessed the concentration of risk with respect to financing its debt as presented below. The directors believe that the Company will have enough resources in the foreseeable future and beyond to meet maturing obligations as shown below, mainly through scaling up of production and sales of gases to cater for increasing demand especially within Tanzania. To meet such demand, the Company has started sourcing for another ASU Plant and improving production infrastructures in the next financial year. For this reason, the liquidity risk is considered low.

Disclosure of this information enables users of financial statements to evaluate the significance of financial instruments for financial position and performance and is prepared based on undiscounted cash flows.

#### Year ended 31 December 2019

	On demand	Less than 3 months	3 to 12 months	Up to 5 years	More than 5 years	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
<b>Financial liabilities</b>						
Cylinder deposits	658,281	-	-	-	-	658,281
Trade and other payables	1,109,951	-	-	-	-	1,109,951
Lease liabilities	-	-	7,476	37,380	280,488	325,344
Interest bearing loans and borrowings	87,210	174,420	784,891	3,747,464	-	4,793,985
Bank overdraft	3,176,569	-	-	-	-	3,176,569
<b>Total</b>	<b>5,032,011</b>	<b>174,420</b>	<b>792,367</b>	<b>3,784,844</b>	<b>280,488</b>	<b>10,064,130</b>

## TOL GASES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

#### 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Year ended 31 December 2018

	On demand	Less than 3 months	3 to 12 months	Up to 5 years	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
<b>Financial liabilities</b>					
Cylinder deposits	563,927	-		-	563,927
Trade and other payables	1,068,454	-	-	-	1,068,454
Interest bearing loans and borrowings	85,000	170,000	765,000	3,910,000	4,930,000
Bank overdraft	3,112,899	-		-	3,112,899
<b>Total</b>	<b>4,830,280</b>	<b>170,000</b>	<b>765,000</b>	<b>3,910,000</b>	<b>9,675,280</b>

#### b) Currency risk

The Company operates within and outside Tanzania and its assets and liabilities are reported in local currency. As at the reporting date, the Company was not exposed to significant currency risk, although there were some trade payables denominated in United States dollars. Currency risk is managed at an operational level and is monitored by the Finance Department. Exposure to losses arising from foreign currency liabilities is managed through prompt payment of outstanding liabilities.

#### Foreign currency sensitivity

The currency sensitivity demonstrates the possible changes in foreign currencies (USD and Euro) exchange rates, with all other variables held constant and has impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Company's exposure to foreign currency changes for all other currencies is not material with respect to balances at the reporting date as disclosed in Notes 17, 19 and 22 respectively.

#### c) Interest rate risk

The Company has adopted a non- speculative approach to the management of interest rate risk. For the past twelve months, there have not been significant changes in interest rates obtained by the Company from its Bankers for its loans and borrowings. The interest rate was 14% in 2019 (2018: 14%). Furthermore, no significant change in interest rates is expected for the coming twelve months as the rates are fixed.



# TOL GASES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### d) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables). The Company's maximum exposure to credit risk as at year-end was as follows:

	<b>Bank balances TZS'000</b>	<b>Trade and other receivables TZS'000</b>	<b>Total exposure TZS'000</b>
<b>At 31 August 2019</b>			
Performing	374,537	3,124,099	3,498,636
Impaired	-	1,002,450	1,002,450
	<b>374,537</b>	<b>4,126,549</b>	<b>4,501,086</b>
<b>At 31 March 2018</b>			
Performing	181,274	3,931,273	4,112,547
Impaired	-	980,522	980,522
	<b>181,274</b>	<b>4,911,795</b>	<b>5,093,069</b>

The Company has a credit policy that is designed to ensure that consistent processes are in place to measure and control credit risk as noted in below paragraphs. Credit risk is considered as part of the risk-reward balance of doing business.

On entering into any business contract, the extent to which the arrangement exposes the Company to credit risk is considered. Key requirement of the policy formally delegates authorities to the sales and marketing teams to assess and advice from time to time regarding credibility and ability of the customer to pay in order to reduce credit risk with support of finance department.

Trade receivables comprise a widespread customer base. Ongoing credit evaluation of the financial position of customers is performed. The granting of credit is made on application and is approved by both the Finance Director and Director of Sales, Marketing and Business Development.

In determining the recoverability of the credit exposures, the Company considers any change in the credit quality of the exposure from the date credit was initially granted up to the reporting date. The concentration of the credit risk is limited due to the customer base being widespread and unrelated.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer with similar loss patterns (i.e. customer type and rating, geographical areas). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The Company does not hold collateral as security.

**TOL GASES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2019**

**28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

**(d) Credit risk (Continued)**

Trade receivables are presented net of allowance for impairment. With respect to the trade and other receivables that are neither impaired nor past due, there are no indications as at the reporting date that the debtors will not meet their payment obligations.

Based on the management assessment at the reporting date regarding the balance of trade receivable shown above, the maximum exposure lies with customers such as Muhimbili Orthopaedic Institute and Muhimbili National Hospital as these are government Institutions whose payments may be certain but takes a long time to recover. The ageing analysis of the trade and other receivables as at year end was as follows:

		<b>2019 TZS '000</b>	<b>2018 TZS '000</b>
Neither past due nor impaired	Up to 30 days	2,123,373	2,618,399
Past due but not impaired	31 - 60 days	572,316	908,285
	61 - 90 days	312,686	346,254
Past due but impaired	Over 90 days	1,002,450	<u>980,522</u>
		<b>4,010,825</b>	<b>4,853,460</b>
Less: Expected credit losses		<u>460,388</u>	<u>538,291</u>
<b>Net trade receivables</b>		<b><u>3,550,437</u></b>	<b><u>4,315,169</u></b>

The ageing analysis of the trade and other receivables as at year end and respective rates applied on total gross carrying amounts for each category is presented below:

**31 December 2019: Amounts in thousands (TZ'000)**

	<b>Up to 30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>Over 90 days</b>
Expected credit loss rate	1%	2%	3%	5%

**31 December 2018: Amounts in thousands (TZ'000)**

	<b>Up to 30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>Over 90 days</b>
Expected credit loss rate	1%	2%	2.5%	5%



# TOL GASES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 29. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments.

2019				
	Level 1	Level 2	Level 3	Carrying amount
	TZS'000	TZS'000	TZS'000	TZS'000
Financial liabilities:				
Interest bearing loans	-	4,793,986	-	4,793,986
	-	4,793,986	-	4,793,986
2018				
	Level 1	Level 2	Level 3	Carrying amount
	TZS'000	TZS'000	TZS'000	TZS'000
Financial liabilities				
Interest bearing loans	-	4,930,000	-	4,930,000
	-	4,930,000	-	4,930,000

The carrying amounts of cylinder deposits, trade and other payables, and trade and other receivables approximate or equal to the fair values of assets and liabilities as these are short term in nature.

For the bank overdraft, the rate imposed on the term will depend on the daily outstanding balance. The balance at the end of year 2019 equals the fair value in respect of the prevailing rate on the outstanding balance.

The interest rate per annum on the interest-bearing loan is fixed at 14% for the entire loan period. Changes in inflation rate are minimal in Tanzania. In the current year the inflation averaged 4.9% (2018: 4.9%) Therefore the carrying amount is the best estimation of the fair value.

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

# TOL GASES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 30. CAPITAL MANAGEMENT DISCLOSURES AND ANALYSIS OF CHANGES IN NET DEBT

The Company defines capital as the total equity of the Company. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company is not subject to any externally imposed capital requirements. The Company manages its capital structure and adjusts it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company aims to maintain capital discipline in relation to investing activities and may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies, or processes during the years ended 31 December 2019 and 31 December 2018.

The Company monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. All components of equity are included in the denominator of the calculation. Please see the table below.

At 31 December 2019, the net debt ratio was 31% (2018: 31%)

	2019	2018
	TZS'000	TZS'000
<b>Gross debt</b>		
Interest bearing loans and borrowings	4,793,986	4,930,000
Bank overdrafts	3,176,569	3,112,899
Trade and other payables	1,603,812	1,068,454
Cylinder deposits	657,807	563,927
Cash and bank balances	(374,537)	(181,274)
<b>Net debt</b>	<b>9,857,637</b>	<b>9,494,006</b>
<b>Equity</b>	<b>21,747,445</b>	<b>20,566,455</b>
<b>Total debt and capital</b>	<b>31,605,082</b>	<b>30,060,461</b>
 Debt ratio	 31%	 31%

### 31. CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 December 2019, which may possibly result in a loss or gain to the company or in commitments which it cannot meet, and for which no provision is considered necessary or only partial provision has been made.



## **TOL GASES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **32. EVENTS AFTER THE REPORTING PERIOD**

The COVID-19 pandemic continued to affect countries and businesses at the time of issuing these financial statements. The risks arising from this pandemic could include market, services and supply chain disruptions, unavailability of key people resources, locations being quarantined, among others. The directors have assessed that, at the time of issuing these financial statements, it was impracticable to determine and disclose the extent of the possible effects of the pandemic on the Company.

The Company was approached by the National Disaster Management Committee with specific request to provide medical oxygen as a contribution towards the Government's fight against covid-19. TOL pledged to make available Aspen 1000 plant should the medical oxygen demand reach critical level where the company might spend extra TZS 158 Million for the same.