PKF

MASTER COPY

PKF Kenya LLP
Certified True Copy of th
Original......................

McLEOD RUSSEL AFRICA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

CONTENTS **PAGE**

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

COMPANY INFORMATION

BOARD OF DIRECTORS	: D. Sen (British) : A. Khaitan (Indian) : A. Monem (Indian) : P. Bhar (Indian)
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	: Mombasa Block XXI/396 & 397 : Tea House, 1st Mezzanine Floor, South Wing, : Off Nyerere Avenue : P. O. Box 41184 - 80100 : Mombasa
INDEPENDENT AUDITOR	: PKF Kenya LLP : Certified Public Accountants : P. O. Box 90553 - 80100 : Mombasa
COMPANY SECRETARIES	: Equatorial Secretaries and Registrars : Certified Public Secretaries : P. O. Box 90553 - 80100 : Mombasa
PRINCIPAL BANKER	: KCB Bank Kenya Limited : Mombasa : Stanbic Bank Kenya Limited : Mombasa
PARENT COMPANY	: Borelli Tea Holdings Limited : United Kingdom
ULTIMATE PARENT COMPANY	: McLeod Russel India Limited : India

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2020 which disclose the state of affairs of the company.

PRINCIPAL ACTIVITY

The principal activity of the company is that of trading in tea primarily for the export market.

BUSINESS REVIEW

The total turnover of the company decreased from Shs 527,923,724 in 2019 to Shs 462,225,481 in 2020. This is due to the reduction in volumes traded mainly attributable to the impact of the Covid-19 pandemic. The company however registered a higher gross profit margin owing to better pricing primarily from the new customers. Notwithstanding the increase in gross profit, the company's loss before tax increased from Shs 6,091,050 in 2019 to Shs 11,043,547 in 2020 due to the significant increase in finance costs mainly arising from the foreign exchange loss which arose from the loan repayment during the year.

Key performance indicators	**2020**	**2019**
Turnover (Shs)	462,225,481	527,923,724
Gross profit (Shs)	25,877,580	23,958,939
Gross profit margin (%)	5.6%	4.5%
Loss for the year (Shs)	(10,369,994)	(6,754,106)
Net liabilities (Shs)	(43,786,082)	(33,416,088)

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on overall demand of the company's products. The company's strategic focus is to enhance sales growth whilst maintaining profit margins, the success of which remains dependent on overall market conditions and other factors such as the impact of the recent coronavirus (Covid-19) outbreak.

The world is experiencing a significant challenge emanating from the Covid-19 pandemic. Globally and locally, the authorities are attempting to stop the spread of the virus which saw the introduction of various measures in year 2020 including travel restrictions and complete lock downs of countries. In the second quarter of the year 2020, the Kenya Government introduced certain fiscal measures to ease the burden of businesses and their citizens as a whole. These economic relief measures however lapsed at the close of year 2020. At company level, the Covid-19 pandemic adversly affected the performance for the year 2020 with a decline in the volumes of export but there has since been a gradual recovery as economies re-open. The Covid-19 pandemic however still portends uncertainty in the operating environment as new variants of the virus continue to be reported and authorities locally and globally tightening and/or introducing new control measures. We are therefore following the developments, particularly the impact on business, and will continually assess the situation on an ongoing basis and adopt changes as events unfold. These financial statements have not been adjusted for any potential future impacts of the Covid-19 pandemic.

In addition to the business risk discussed above, the company's activities expose it to a number of financial risks including credit risk and liquidity risk as set-out below:

Credit risk

The company's principal financial assets are cash and bank balances and trade and other receivables. The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The company has no significant concentration of credit risk, with exposure spread over a number of counterparties.

......................continued on page 3

REPORT OF THE DIRECTORS (CONTINUED)

Cash flow and foreign currency risk

The majority of the company's sales and a significant proportion of the purchases are made in foreign currencies hence the company is exposed to currency risk. The risk is managed through appropriate operational offset of open receivable and payable foreign currency positions.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company monitors its need for cash on a regular basis and takes appropriate action through financing arrangements.

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2019: Shs Nil).

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.

In accordance with the company's Articles of Association, no director is due for retirement by rotation.

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to each director at the time this report was approved:
(a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and
(b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

TERMS OF APPOINTMENT OF THE AUDITOR

PKF Kenya, a partnership, was on 10 March 2020 converted to PKF Kenya LLP, a Limited Liability Partnership under the Limited Liability Partnership Act, 2011. PKF Kenya LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fee.

BY ORDER OF THE BOARD

DIRECTOR

20 | 04 | 2021

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 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 that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company; and that disclose, with reasonable accuracy, the financial position of the company and that enables them to prepare financial statements of the company that comply with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act, 2015. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

i) Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error,
ii) Selecting and applying appropriate accounting policies;
iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31 December 2020 and of the company's financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act, 2015.

In preparing these financial statements the directors have assessed the company's ability to continue as a going concern. 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

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 20/04/ 2021 signed on its behalf by:

DIRECTOR DIRECTOR

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF McLEOD RUSSEL AFRICA LIMITED

Opinion
We have audited the financial statements of McLeod Russel Africa Limited, set out on pages 7 to 20 which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss, 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 accompanying financial statements give a true and fair view of the financial position of the company as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and the Kenyan Companies Act, 2015.

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 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 Kenya, 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.

Other information
The directors are responsible for the other information. The other information comprises the directors' report and schedule of cost of sales and expenditure but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether 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.

Responsibilities of Directors for the Financial Statements
The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS for SMEs, and the requirements of the Kenyan Companies Act, 2015, 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 for accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

.................................continued on page 5

1st Floor • Pereira Building • Pramukh Swami Maharaj Road • P O Box 90553 - 80100 • Mombasa • Kenya
Tel +254 41 2226422 • 2314007 • 2315846 • Mobile +254 724 / 733 563668 • Email pkfmsa@ke.pkfea.com • www.pkfea.com

PKF

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF MCLEOD RUSSEL AFRICA LIMITED (CONTINUED)

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 judgment and maintain professional scepticism throughout the audit. We also:

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

Report on other matters prescribed by the Kenyan companies Act, 2015.
In our opinion the information given in the report of the directors on pages 2 and 3 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Piyush Ramesh Devchand Shah P/No 1521

PiyushShah

For and on behalf of PKF Kenya LLP
Certified Public Accountants
Mombasa

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

22 April **2021**

0113/2021

STATEMENT OF PROFIT OR LOSS

	Notes	2020 Shs	2019 Shs
Revenue	4	462,225,481	527,923,724
Cost of sales		(436,347,901)	(503,964,785)
Gross profit		25,877,580	23,958,939
Other operating income	5	8,492,148	3,994,267
Administrative expenses		(19,516,869)	(22,778,641)
Other operating expenses		(2,466,329)	(4,752,354)
Operating profit	6	12,386,530	422,211
Finance costs	8	(23,430,077)	(6,513,261)
Loss before tax		(11,043,547)	(6,091,050)
Tax credit/(charge)	9	673,553	(663,056)
Loss for the year		(10,369,994)	(6,754,106)

The notes on pages 11 to 20 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 6.

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2020 Shs	2019 Shs
EQUITY			
Share capital	10	100,000	100,000
Retained earnings		(43,886,082)	(33,516,088)
Equity attributable to owners of the company		(43,786,082)	(33,416,088)
Non-current liabilities			
Borrowings	11	190,132,824	268,656,840
Deferred tax	12	-	699,521
		190,132,824	269,356,361
		146,346,742	235,940,273
REPRESENTED BY			
Non-current assets			
Plant and equipment	14	1,333,791	1,614,931
		1,333,791	1,614,931
Current assets			
Inventories	15	38,109,497	51,231,176
Trade and other receivables	16	70,131,382	115,318,642
Cash and cash equivalents	17	37,851,570	70,605,488
Tax recoverable		1,980,970	2,006,938
		148,073,419	239,162,244
Current liabilities			
Trade and other payables	18	2,620,159	3,784,351
Other accrued liabilities	13	440,309	1,052,551
		3,060,468	4,836,902
Net current assets		145,012,951	234,325,342
		146,346,742	235,940,273

The financial statements on pages 7 to 20 were authorised and approved for issue by the Board of Directors on 20/04/2021 and were signed on its behalf by

DIRECTOR

DIRECTOR

The notes on pages 11 to 20 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 6.

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	Retained earnings Shs	Total Shs
Year ended 31 December 2020			
At start of year	100,000	(33,516,088)	(33,416,088)
Loss for the year	-	(10,369,994)	(10,369,994)
At end of year	100,000	(43,886,082)	(43,786,082)
Year ended 31 December 2019			
At start of year	100,000	(26,761,982)	(26,661,982)
Loss for the year	-	(6,754,106)	(6,754,106)
At end of year	100,000	(33,516,088)	(33,416,088)

Report of the independent auditor - pages 5 - 6.

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

STATEMENT OF CASH FLOWS

	Notes	2020 Shs	2019 Shs
Cash flows from operating activities			
Loss before tax		(11,043,547)	(6,091,050)
Adjustments for:			
Depreciation on plant and equipment	14	371,140	459,105
Interest expense	8	4,824,596	7,720,188
Changes in working capital:			
- inventories		13,121,679	23,502,023
- trade and other receivables		45,187,260	(33,617,459)
- trade and other payables		(1,164,192)	(344,254)
- other accrued liabilities	13	(612,242)	12,629
Interest paid		(10,841,300)	-
Net cash from/(used) in operating activities		39,843,394	(8,358,818)
Cash flows from investing activities			
Cash paid for purchase of plant and equipment	14	(90,000)	-
Net cash used in investing activities		(90,000)	-
Cash flows from financing activities			
Net movement in borrowings		(72,507,312)	(605,394)
Net cash from financing activities		(72,507,312)	(605,394)
Decrease in cash and cash equivalents		(32,753,918)	(8,964,212)
Movement in cash and cash equivalents			
At start of year		70,605,488	79,569,700
Decrease		(32,753,918)	(8,964,212)
At end of year	17	37,851,570	70,605,488

The notes on pages 11 to 20 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 6.

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

PKF Kenya LLP
P.O. Box 90553 - 8010(
Mombasa - Kenya

NOTES: SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

1. **General information**

McLeod Russel Africa Limited is a limited liability company incorporated in Kenya. The address of its registered office and its principal place of business is in Mombasa, Kenya. Their principal activity is that of trading in tea.

2. a) **Basis of preparation**

The financial statements of McLeod Russel Africa Limited have been prepared in accordance with the 'International Financial Reporting Standard for Small and Medium-sized Entities' (IFRS for SMEs).

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with the IFRS for SMEs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in note 2 (b).

These financial statements comply with the requirements of the Kenyan Companies Act 2015. The statement of profit or loss represents the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

Going concern

The financial performance of the company is set out in the directors' report and in the statement of profit or loss. The financial position of the company is set out in the statement of financial position. Disclosures in respect of principal risks and uncertainties are included within the director's report.

Based on the management's assessment, notwithstanding the financial indicators as disclosed in Note 3, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

b) **Key sources of estimation uncertainty**

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Going concern- The directors have excercised significant judgement in assessing that the preparation of these financial statements on a going concern basis is appropriate. In making this assesment, factors like current financial position, future business prospects, future profitability and cash flows including support of the parent company have been considered.

Impairment of trade receivables - the management reviews their portfolio of trade receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cashflows expected.

Useful lives of plant and equipment - the management reviews the useful lives and residual values of the items of plant and equipment on a regular basis. During the financial year, the management determined no significant changes in the useful lives and residual values.

c) **Revenue recognition**

Revenue comprises the fair value of consideration received or receivable for the sale of goods in the ordinary course of the company's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the company.

The company recognises revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and the specific criteria have been met for each of the company's activities.

Sales of goods are recognised upon delivery of products and customer acceptance

d) **Property and equipment**

All plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on a straight line method to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	Rate %
Motor vehicle	25.0
Office equipment	12.5
Computer equipment	30.0
Furniture and fittings	25.0

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

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Gains and losses on disposal of plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss.

e) **Financial assets**

Trade and other receivables are initially recognised at the transaction price. Most sales are made on the basis of normal credit terms, and the receivables do not bear interest.

At the end of each reporting period, the carrying amounts of trade receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

f) **Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

NOTES: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost method. Cost comprises all costs attributable to bringing the inventory to its present location and condition. Net realisable value is the estimate of the selling price is the ordinary course of business, less the selling expenses.

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

h) **Borrowings**

Borrowings are recognised initially at the transaction price (that is, the present value of cash payable to the lender, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

i) **Financial liabilities**

Financial liabilities are initially recognised at the transaction price (less transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest.

j) **Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the statement of financial position date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

k) **Current and deferred income tax**

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

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

Offsetting

An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off the amounts and the entity can demonstrate without undue cost or effort that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.

NOTES: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) **Share capital**

Ordinary shares are classified as equity.

m) **Leases**

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

n) **Employee benefit obligations**

The company and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

o) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

3. Going concern

The company incurred a loss for the year of Shs 10,369,994 (2019: Shs 6,754,106) during the year ended 31 December 2020 and, as of that date, there was a deficit in equity attributable to owners of the company of Shs 43,786,082 (2019: Shs 33,416,088).

The parent company has confirmed their willingness to provide financial support to the company to enable it meet its liabilities as they fall due, and not to demand repayment of amounts due to them in a manner that would jeopardize the company's ability to continue as a going concern for atleast twelve months from the date of issue of these financial statements. In view of this financial support, the company therefore continues to adopt the going concern basis in preparing the annual financial statements.

4. Revenue

	2020 Shs	2019 Shs
Revenue from sale of tea	462,225,481	527,923,724

5. Other operating income

	2020 Shs	2019 Shs
Commission on agency tea sales (Note 19 (ii))	-	3,054,150
Sale of packaging bags	-	360,002
Interest income	103,872	-
Gain on blended tea	388,995	273,610
Net foreign exchange gain	7,138,337	-
Miscellaneous income	860,944	306,505
	8,492,148	3,994,267

6. Operating profit

The following items have been charged in arriving at the operating profit:

	2020 Shs	2019 Shs
Depreciation on plant and equipment (Note 14)	371,140	459,105
Auditor's remuneration:		
- current year	525,000	525,000
- underprovision in prior year	-	25,000
Operating lease rentals	1,194,060	1,164,384
Staff costs (Note 7)	13,902,831	14,898,461

7. Staff costs

	2020 Shs	2019 Shs
Salaries and wages	14,166,994	14,672,187
Staff medical expenses	337,079	198,645
(Decrease)/increase in staff leave accrual (Note 13)	(612,242)	12,629
Other staff costs	-	3,000
Pension costs:		
- National Social Security Fund	11,000	12,000
	13,902,831	14,898,461

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

7. Staff costs (continued)

The average number of persons employed during the year, by category were:

	2020 No.	2019 No.
Management and administration	3	5

8. Finance costs/(income)

	2020 Shs	2019 Shs
Net foreign exchange loss/(gain)	18,605,481	(1,206,927)
Interest expense:		
- related party loan and balances	4,824,596	7,720,188
	23,430,077	6,513,261

9. Tax

	2020 Shs	2019 Shs
Current tax	25,968	-
Deferred tax (credit)/charge (Note 12)	(699,521)	663,056
Tax (credit)/charge	(673,553)	663,056

The tax on the company's loss before tax differs from the theoretical amount that would arise using the basic rate as follows:

	2020 Shs	2019 Shs
Loss before tax	(11,043,547)	(6,091,050)
Tax calculated at a tax rate of 25% (2019: 30%)	(2,760,887)	(1,827,315)
Tax effect of :		
- expenses not deductible for tax purpose	1,258,972	2,490,371
- change in tax rate on deferred tax movement	(305,576)	-
- derecognition of deferred tax assets	1,133,938	-
Tax (credit)/charge	(673,553)	663,056

The tax losses carried forward at the reporting date will expire as follows:

Originating in year	Shs	Expiry
2017	280,465	31 December 2026
2018	1,729,452	31 December 2027
2020	14,535,308	31 December 2029
Tax losses carried forward	16,545,225	

The statutory tax rate was reduced to 25% for the year of income 2020 by the Tax Laws (Amendment) Act 2020.

10. Share capital

	2020 Shs	2019 Shs
Authorised, issued and fully paid:		
10,000 (2019: 10,000) ordinary shares of Shs 10 each	100,000	100,000

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

11. Borrowings

	2020 Shs	2019 Shs
The borrowings are made up as follows:		
Non-current		
Loan from parent company (Note 19 (i))	190,132,824	268,656,840

The loan from the parent company is unsecured, earns interest at a rate of LIBOR + 2% per annum and will not be recalled within the next twelve months from the reporting date but payable when the borrower is in a position to do so.

12. Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2019: 30%). The movement on the deferred tax account is as follows:

	2020 Shs	2019 Shs
At start of year	699,521	36,465
(Credit)/charge to profit or loss (Note 9)	(699,521)	663,056
At end of year	-	699,521

Deferred tax is attributable to the following items:

	At start of year Shs	Charge/(credit) to profit or loss Shs	At end of year Shs
Deferred tax (assets)/liabilities			
Plant and equipment: accelerated tax depreciation	(131,871)	(18,819)	(150,690)
Other accrued liabilities	(315,766)	183,673	(132,093)
Unrealised exchange differences	1,750,133	(5,600,359)	(3,850,226)
Tax losses carried forward	(602,975)	(4,360,593)	(4,963,568)
Net deferred tax liability/(asset) before allowance	699,521	(9,796,098)	(9,096,577)
Deferred tax asset derecognised	-	9,096,577	9,096,577
Net deferred tax liability/(asset)	699,521	(699,521)	-

Deferred tax assets on tax losses carried forward and deductible temporary differences are only recognised to the extent of certainty of availability of sufficient future taxable profits to utilise such losses and deductible temporary differences against. However; in the view of inability to assess future taxable income, the extent of deferred tax assets which may be adjusted in subsequent years is not ascertainable with virtual certainty at this stage, and accordingly the deferred tax asset has been fully derecognised.

13. Other accrued liabilities

	2020 Shs	2019 Shs
Accrual for outstanding leave days		
At start of year	1,052,551	1,039,922
(Credit)/charge to profit or loss (Note 7)	(612,242)	12,629
At end of year	440,309	1,052,551

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

NOTES (CONTINUED)

14. **Plant and equipment**

	Motor vehicle Shs	Office equipment Shs	Computer equipment Shs	Furniture and fittings Shs	Total Shs
Cost					
At start of year	2,425,000	701,459	341,425	2,404,672	5,872,556
Additions	-	-	90,000	-	90,000
At end of year	2,425,000	701,459	431,425	2,404,672	5,962,556
Depreciation					
At start of year	1,753,627	250,971	272,094	1,980,933	4,257,625
Charge for the year	167,844	56,311	41,050	105,935	371,140
At end of year	1,921,471	307,282	313,144	2,086,868	4,628,765
Net book value					
As at 31 December 2020	503,529	394,177	118,281	317,804	1,333,791
As at 31 December 2019	671,373	450,488	69,331	423,739	1,614,931

15 **Inventories**

	2020 Shs	2019 Shs
Tea stock	33,582,083	51,133,286
Packaging material	4,527,414	97,890
	38,109,497	51,231,176

16. **Trade and other receivables**

	2020 Shs	2019 Shs
Current		
Trade receivables	5,741,610	42,134,959
Prepayments	1,058,668	1,134,604
Loan receivable	3,379,738	-
Other receivables	11,724,103	10,106,428
Receivable from related parties (Note 19 (v))	48,227,263	61,942,651
	70,131,382	115,318,642

17. **Cash and cash equivalents**

	2020 Shs	2019 Shs
Cash at bank and in hand	37,851,570	70,605,488

18. **Trade and other payables**

	2020 Shs	2019 Shs
Trade payables	1,924,832	2,862,614
Accruals	695,327	921,737
	2,620,159	3,784,351

19. Related party transactions and balances

The company is controlled by Borelli Tea Holdings Limited incorporated in United Kingdom which owns 99.9% of the company's shares. The remaining 0.1% of the shares are held by Dilsher Sen,a director. The ultimate parent company is McLeod Russel India Limited, incorporated in India. The company is also related to other companies through common shareholding and/or directorships.

The following transactions were carried out with related parties:

i) **Loans and advances from parent company**	**2020 Shs**	**2019 Shs**
At start of year	268,656,840	261,542,046
Interest	4,824,596	10,015,468
Witholding tax on interest	(623,244)	(1,693,747)
Repayments	(101,330,850)	-
Exchange difference	18,605,481	(1,206,927)
At end of year (Note 11)	190,132,823	268,656,840

The loan from the parent company is unsecured, earns interest at a rate of LIBOR + 2% per annum and is not repayable within the next twelve months from the reporting date.

ii) **Sale of goods and services**		
Sale of teas to other related party	135,501,810	130,367,698
Commission from sale of teas on behalf of other related parties (Note 5)	-	3,054,150
iii) **Purchase of services**		
Interest on borrowing from parent company	4,824,596	7,720,188
iv) **Key management personnel compensation**		
Short term employee benefits	10,212,735	7,217,916
v) **Outstanding balances arising from sale of goods and services**		
Receivable from related parties (Note 16)	48,227,263	61,942,651

No provision has been required in 2020 and 2019 in respect of related party balances.

20. Contingent liabilities

There were no contingent liabilities as at year end.

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

NOTES (CONTINUED)

21. **Commitments**

Operating lease commitments - as a lessee

The company leases a property under a cancellable operating lease.The lease term is for a period of 6 years from 1st June 2018 to 31st May 2024. To terminate this lease the company must give a notice of 3 months. The expenditure to lease this property amounted to Shs 1,194,060 (2019: Shs 1,164,384) and is included under establishment expenses.

22. **Presentation currency**

The financial statements are presented in Kenya Shillings (Shs).

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

SCHEDULE OF COST OF SALES AND EXPENDITURE

1. COST OF SALES

	2020 Shs	2019 Shs
Opening stock of tea	50,136,266	74,733,199
Purchases of tea	379,483,498	437,036,743
Other direct costs	44,837,634	42,331,109
Closing stock of tea	(38,109,497)	(50,136,266)
Total cost of sales	436,347,901	503,964,785

2. ADMINISTRATIVE EXPENSES

	2020 Shs	2019 Shs
Employment costs:		
Salaries and wages	14,177,994	14,684,187
Staff medical expenses	337,079	198,645
(Decrease)/increase in staff leave accrual	(612,242)	12,629
Other staff costs	-	3,000
Total employment costs	13,902,831	14,898,461
Other administration expenses:		
Postage and telephone	506,668	443,473
Vehicle running and maintenance	117,319	306,917
Travelling and accommodation	301,591	1,588,877
Printing and stationery	351,596	161,935
Audit fees:		
- current	525,000	525,000
- underprovision in prior year	-	25,000
Legal and professional fees	1,628,128	1,974,207
Secretarial fees	53,650	49,050
Bank charges and commissions	1,489,502	2,195,515
Cleaning expenses	45,472	13,990
Subscriptions	234,200	250,810
Entertainment	98,557	194,882
Advertisement and promotions	186,150	93,907
Miscellaneous	66,205	50,823
Donations	10,000	-
Fines and penalty	-	5,794
Total other administration expenses	5,614,038	7,880,180
Total administrative expenses	19,516,869	22,778,641

3. OTHER OPERATING EXPENSES

	2020 Shs	2019 Shs
Establishment:		
Rent and rates	1,194,060	1,164,384
Electricity and water	228,433	309,861
Repairs and maintenance	222,020	114,706
Insurance	127,401	216,076
Licenses	323,275	309,025
Net foreign exchange loss	-	2,179,197
Depreciation on plant and equipment	371,140	459,105
Total other operating expenses	2,466,329	4,752,354