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MCLEOD RUSSEL AFRICA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

CONTENTS **PAGE**

COMPANY INFORMATION

BOARD OF DIRECTORS	: D. Sen (British) : A. Khaitan (Indian) : A. Monem (Indian) - Resigned on 31 March 2023 : 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	: ESR Kenya LLP : Certified Public Secretaries : P. O. Box 90553 - 80100 : Mombasa
PRINCIPAL BANKERS	: KCB Bank Kenya Limited : Mombasa : Stanbic Bank Kenya Limited : Mombasa
ULTIMATE PARENT	: McLeod Russel India Limited : India
PARENT	: Borelli Tea Holdings Limited : United Kingdom

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2022, 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 increased from Shs 253,841,520 in 2021 to Shs 381,019,732 in 2022. This is due to an increase in volumes traded coupled with the effect of the weakening of the Kenya Shilling against the US Dollar. The loss before tax decreased from Shs 2,084,194 in 2021 to Shs 201,924 in 2022 primarily due to the effects of increased turnover and as moderated by the rise in administration expenses and finance costs. Although the profit before tax is still negative, the profit after tax is positive principally due to the recognition of deferred tax asset/credit on foreign exchange losses and other temporary differences.

Despite the loss before tax, there is a profit for the year of Kshs 6,951,089. This is a result of a deferred tax credit arising from carried-forward tax losses being utilised against corporation tax charged for the year.

Key performance indicators	**2022**	**2021**
Turnover (Shs)	381,019,732	253,841,520
Gross profit (Shs)	33,034,994	19,211,982
Gross profit margin (%)	8.7%	7.6%
Profit/(loss) for the year (Shs)	6,951,089	(2,138,584)
Net liabilities (Shs)	(38,973,577)	(45,924,666)

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.

In addition to the business risks discussed above, the company's activities expose it to a number of financial risks including credit risk, cash flow and foreign currency 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 statement of financial position 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

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 (2021: 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 LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Kenyan 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

18 – 05 – 2023

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 2022 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.

Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

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 18 – 05 – 2023 signed on its behalf by:

DIRECTOR

DIRECTOR

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 19 which comprise the statement of financial position as at 31 December 2022, 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 2022, 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.

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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

Piyush Shah

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

23 May **2023**

0107/2023

STATEMENT OF PROFIT OR LOSS

	Notes	2022 Shs	2021 Shs
Revenue	3	381,019,732	253,841,520
Cost of sales		(347,984,738)	(234,629,538)
Gross profit		33,034,994	19,211,982
Other operating income	4	9,541,687	4,692,503
Administrative expenses		(19,023,155)	(14,648,167)
Other operating expenses		(1,731,702)	(1,957,532)
Operating profit	5	21,821,824	7,298,786
Finance costs	7	(22,023,748)	(9,382,980)
Loss before tax		(201,924)	(2,084,194)
Tax credit/(charge)	8	7,153,012	(54,390)
Profit/(loss) for the year		6,951,089	(2,138,584)

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

Report of the independent auditor - pages 5 - 6.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2022 Shs	2021 Shs
EQUITY			
Share capital	9	100,000	100,000
Retained earnings		(39,073,577)	(46,024,666)
Equity attributable to owners of the company		(38,973,577)	(45,924,666)
Non-current liabilities			
Borrowings	10	189,691,483	171,844,510
		150,717,906	125,919,844
REPRESENTED BY			
Non-current assets			
Plant and equipment	12	540,269	672,714
Deferred tax	11	9,185,078	-
		9,725,347	672,714
Current assets			
Inventories	13	47,943,869	17,008,308
Trade and other receivables	14	99,366,573	105,234,975
Cash and cash equivalents	15	8,335,042	11,979,688
		-	1,926,580
		155,645,484	136,149,551
Current liabilities			
Trade and other payables	16	14,607,265	10,902,421
Tax payable		45,660	-
Net current assets		140,992,559	125,247,130
		150,717,906	125,919,844

The financial statements on pages 7 to 20 were authorised and approved for issue by the Board of Directors on 18 – 05 – 2023 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.

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	Retained earnings Shs	Total Shs
Year ended 31 December 2022			
At start of year	100,000	(46,024,666)	(45,924,666)
Profit for the year	-	6,951,089	6,951,089
At end of year	100,000	(39,073,577)	(38,973,577)
Year ended 31 December 2021			
At start of year	100,000	(43,886,082)	(43,786,082)
Loss for the year	-	(2,138,584)	(2,138,584)
At end of year	100,000	(46,024,666)	(45,924,666)

Report of the independent auditor - pages 5 - 6.

STATEMENT OF CASH FLOWS

	Notes	2022 Shs	2021 Shs
Cash flows from operating activities			
Loss before tax		(201,924)	(2,084,194)
Adjustments for:			
Depreciation on plant and equipment	12	210,048	321,944
Gain on disposal of plant and equipment	4	-	(408,366)
Interest expense	7	6,577,837	3,430,418
Cash flows from operating activities before changes in working capital		6,585,961	1,259,802
Changes in working capital:			
- inventories		(30,935,561)	21,101,189
- trade and other receivables		5,868,402	(35,103,593)
- trade and other payables		3,704,843	7,841,952
Cash used in operations		(14,776,355)	(4,900,650)
Interest paid		(6,577,837)	(3,430,418)
Tax paid		(59,824)	-
Net cash used in operating activities		(21,414,016)	(8,331,068)
Cash flows from investing activities			
Cash paid for purchase of plant and equipment	12	(77,603)	(52,500)
Proceeds from disposal of plant and equipment		-	800,000
Net cash (used in)/generated from investing activities		(77,603)	747,500
Cash flows from financing activities			
Net movement in borrowings		17,846,973	(18,288,314)
Net cash generated from/(used in) financing activities		17,846,973	(18,288,314)
Decrease in cash and cash equivalents		(3,644,646)	(25,871,882)
Movement in cash and cash equivalents			
At start of year		11,979,688	37,851,570
Decrease		(3,644,646)	(25,871,882)
At end of year	15	8,335,042	11,979,688

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

Report of the independent auditor - pages 5 - 6.

1. **General information**

McLeod Russel Africa Limited is incorporated under the Kenyan Companies Act, 2015 as a private company limited by shares. The address of its registered office and principal place of business is in Mombasa, Kenya.

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

2. **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 the years presented, unless otherwise stated.

a) **Basis of preparation**

These financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities issued by the International Accounting Standards Board and are consistent with the previous period.

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 directors' report.

Based on the financial performance and position of the company and its risk management policies, 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 and judgements**

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

b) **Key sources of estimation uncertainty and judgements (continued)**

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, depreciation methods and residual values of plant and equipment - the management reviews the useful lives, depreciation methods and residual values of the items of plant and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.The carrying amounts of plant and equipment is disclosed in note 12.

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.

i) Sales of goods are recognised upon delivery of products and customer acceptance
ii) Interest income is accrued by reference to time in relation to the principal outstanding and the effective interest rate applicable.

d) **Plant and equipment**

All plant and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation and any accumulated impairment losses. 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, useful lives and methods of depreciation are reviewed at the end of each reporting period and adjusted prospectively, if appropriate.

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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.

NOTES (CONTINUED)

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

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) **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. Interest bearing liabilities are subsequently measured at amortised cost using the effective interest method.

Borrowings are recognised initially at the transaction price (that is, present value of cash payable to the bank, 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. Borrowings are classisifed as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

i) **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.

j) **Taxation**

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.

Current tax
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.

j) **Taxation (continued)**

Deferred tax
Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. 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 assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised.

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 re-assessed 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.

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

k) **Share capital**

Ordinary shares are classified as equity.

l) **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.

m) **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.

n) **Accrued leave**

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

o) **Borrowing costs**

Borrowing costs are interest and other costs that the company incurs in connection with the borrowing of funds.

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

p) **Comparatives**

There were no changes in presentation in the current year.

3. Revenue

	2022 Shs	2021 Shs
Revenue from sale of tea	381,019,732	253,841,520

4. Other operating income

	2022 Shs	2021 Shs
Interest income	956,463	181,301
Gain on blended tea	334,130	63,710
Net foreign exchange gain	7,144,199	2,527,790
Gain on disposal of plant and equipment	-	408,366
Miscellaneous income	1,106,895	1,511,336
	9,541,687	4,692,503

5. Operating profit

The following items have been charged/(credited) in arriving at the operating profit:

	2022 Shs	2021 Shs
Depreciation on plant and equipment (Note 12)	210,048	321,944
Auditor's remuneration:		
- current year	575,000	550,000
- underprovision in prior year	-	15,000
Operating lease rentals	1,245,233	1,197,450
Staff costs (Note 6)	12,447,158	10,274,547
Gain on diposal of plant and equipment	-	(408,366)

6. Staff costs

	2022 Shs	2021 Shs
Salaries, wages and other staff costs	12,437,558	10,265,147
Retirement costs:		
- National Social Security Fund	9,600	9,400
	12,447,158	10,274,547

The average number of persons employed during the year, by category were:	2022 No.	2021 No.
Management and administration	4	4

7. Finance costs

	2022 Shs	2021 Shs
Interest expense:		
- related party loan and balances	6,577,837	3,430,418
Exchange loss on foreign currency borrowings	15,445,911	5,952,562
	22,023,748	9,382,980

8. Tax

	2022 Shs	2021 Shs
Current tax	2,032,066	54,390
Underprovision of deferred tax in prior years (Note 11)	(8,713,880)	-
Deferred tax credit (Note 11)	(471,198)	-
Tax charge	(7,153,012)	54,390

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

	2022 Shs	2021 Shs
Loss before tax	(201,924)	(2,084,194)
Tax calculated at a tax rate of 30% (2021: 30%)	(60,577)	(625,258)
Tax effect of :		
- income not subject to tax	-	(21,471)
- expenses not deductible for tax purpose	1,621,445	1,089,817
- movement of deferred tax not recognised	-	(388,698)
Underprovision of deferred tax in prior years (Note 11)	(8,713,880)	-
Tax charge	(7,153,012)	54,390

9. Share capital

	2022 Shs	2021 Shs
Authorised, issued and fully paid:		
10,000 (2021: 10,000) ordinary shares of Shs 10 each	100,000	100,000

10. Borrowings

The borrowings are made up of the following:

Non-current

	2022 Shs	2021 Shs
Loan from parent company (Note 17 (i))	189,691,483	171,844,510

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.

11. **Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using the enacted tax rate of 30% (2021: 30%). The movement on the deferred tax account is as follows:

	2022 Shs	2021 Shs
At start of year	-	-
Underprovision in prior years (Note 8)	(8,713,880)	-
Credit to profit or loss (Note 8)	(471,198)	-
At end of year	(9,185,078)	-

Deferred tax is attributed 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	(207,183)	(14,345)	(221,528)
Other accrued liabilities	(187,515)	(101,893)	(289,408)
Unrealised exchange differences	(4,098,910)	(4,575,231)	(8,674,141)
Tax losses carried forward	(4,220,271)	4,220,271	-
Net deferred tax asset	(8,713,880)	(471,198)	(9,185,078)

Deferred tax had been fully derecognised in prior years in view of the inability to access future taxable income as a result which the extent of deferred tax that may be adjusted in subsequent years was not ascertainable.

12. **Plant and equipment**

	Office equipment Shs	Computer equipment Shs	Furniture and fittings Shs	Total Shs
Cost				
At start of year	753,959	431,425	2,404,672	3,590,056
Additions	71,103	6,500	-	77,603
At end of year	825,062	437,925	2,404,672	3,667,659
Accumulated depreciation				
At start of year	363,598	360,940	2,192,804	2,917,342
Charge for the year	56,316	47,796	105,936	210,048
At end of year	419,914	408,736	2,298,740	3,127,390
Net carrying amount				
As at 31 December 2022	405,148	29,189	105,932	540,269
As at 31 December 2021	390,361	70,485	211,868	672,714

17. **Related party transactions and balances (continued)**

i) **Loans and advances from parent company (continued)**

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 but payable when the is in a position to do so.

	2022 Shs	2021 Shs
ii) **Sale of goods and services**		
Sale of teas to other related party	77,829,869	103,278,106
iii) **Purchase of services**		
Interest on borrowing from parent company	6,577,837	3,430,418
iv) **Key management personnel compensation**		
Short term employee benefits	10,693,844	8,183,143
v) **Outstanding balances arising from sale of goods and services**		
Receivable from related parties (Note 14)	24,616,301	43,184,911

No provision has been required in 2022 and 2021 in respect of related party balances.

	2022 Shs	2021 Shs
vi) **Outstanding balances arising from purchase of goods**		
Payables to related party (Note 16)	8,583,491	2,573,545

The receivables from and payables to related parties are unsecured, interest free and have no specific dates of repayment.

18. **Contingent liabilities**

There were no contingent liabilities as at year end.

19. **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 1,245,233 (2021: Shs 1,197,450) and is included under establishment expenses.

20. **Presentation currency**

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

SCHEDULE OF COST OF SALES AND EXPENDITURE

1. COST OF SALES

	2022 Shs	2021 Shs
Opening stock of tea	17,008,308	38,109,497
Purchases of tea	344,714,431	188,959,523
Other direct costs	34,205,868	24,568,826
Closing stock of tea	(47,943,869)	(17,008,308)
Total cost of sales	347,984,738	234,629,538

2. ADMINISTRATIVE EXPENSES

	2022 Shs	2021 Shs
Employment costs:		
Salaries and wages	11,569,357	9,588,377
Staff medical expenses	512,384	413,451
Increase in staff leave accrual	339,643	184,741
Other staff costs	25,774	87,978
Total employment costs	12,447,158	10,274,547
Other administration expenses:		
Postage and telephone	506,890	330,475
Vehicle running and maintenance	295,000	143,000
Travelling and accommodation	1,442,023	420,968
Printing and stationery	189,920	138,537
Audit fees:		
- current year	575,000	550,000
- underprovision in prior year	-	15,000
Legal and professional fees	1,789,600	1,667,280
Secretarial fees	61,643	52,650
Bank charges and commissions	761,534	773,076
Cleaning expenses	1,350	8,700
Subscriptions	375,556	169,200
Entertainment	20,580	24,917
Miscellaneous	129,691	66,320
Bad debts written off	362,578	-
Fines and penalties	64,632	13,497
Total other administration expenses	6,575,997	4,373,620
Total administrative expenses	19,023,155	14,648,167

3. OTHER OPERATING EXPENSES

	2022 Shs	2021 Shs
Establishment:		
Rent and rates	1,245,233	1,197,450
Electricity and water	195,937	259,934
Repairs and maintenance	30,840	57,520
Insurance	-	56,142
Licenses	49,644	64,542
Depreciation on plant and equipment	210,048	321,944
Total other operating expenses	1,731,702	1,957,532