

CORRESPONDENCE COPY

**McLEOD RUSSEL AFRICA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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COMPANY INFORMATION

BOARD OF DIRECTORS	: Dilsher Sen (British) : Aditya Khaitan (Indian) : Azam Monem (Indian) : Pradip Bhar (Indian)
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	: Mombasa Block XXI/396 &397 : Tea House, Nyerere Avenue : P. O. Box 41184 - 80100 : Mombasa
INDEPENDENT AUDITOR	: PKF Kenya : 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 2018 which disclose the state of affairs of the company.

PRINCIPAL ACTIVITY

The principal activity of the company is that of trading in tea.

BUSINESS REVIEW

During the year 2018 the total turnover of the company increased from Shs 586,194,488 to Shs 605,136,559. This was mainly attributable to increase in volume of tea sold and new customers won during the year. The loss before tax decreased from Shs 10,833,595 to shs 4,689,127 despite the growth in revenue primarily due the effects of reduced profit margins.

As at 31 December 2018, the net liability position of the company was Shs.26,661,982 compared to Shs 20,601,638 as at 31 December 2017.

Key performance indicators	2018	2017
Turnover (Shs)	605,136,559	586,194,488
Gross profit (Shs)	24,728,110	32,855,096
Gross profit margin (%)	4.1	5.6
Loss for the year (Shs)	(6,060,344)	(10,215,258)
Net liabilities (Shs)	(26,661,982)	(20,601,638)

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 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

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 (2017: 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 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 fees. The agreed auditor's remuneration of Shs 475,000 has been charged to profit or loss in the year.

BY ORDER OF THE BOARD



DIRECTOR
MOMBASA

08 - 03 - 2019



**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 2018, 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 2018, 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 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

**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 Legal and Regulatory Requirements

In our opinion the information given in the report of the directors on pages 2 and 3 is consistent with the financial statements.

PKF Kenya

Certified Public Accountants

Mombasa

CPA Piyush Ramesh Devchand Shah, Practising certificate No. 1521

Signing partner responsible for the independent audit

12-3- 2019

0042/2019

STATEMENT OF PROFIT OR LOSS

	Notes	2018 Shs	2017 Shs
Revenue	4	605,136,559	586,194,488
Cost of sales		<u>(580,408,449)</u>	<u>(553,339,392)</u>
Gross profit		24,728,110	32,855,096
Other operating income	5	3,681,884	234,504
Administrative expenses		(22,881,599)	(27,088,036)
Other operating expenses		<u>(4,439,002)</u>	<u>(4,829,629)</u>
Operating profit	6	1,089,393	1,171,935
Finance costs	8	<u>(5,778,520)</u>	<u>(12,005,530)</u>
Loss before tax		(4,689,127)	(10,833,595)
Tax (charge)/credit	9	<u>(1,371,217)</u>	<u>618,337</u>
Loss for the year		<u><u>(6,060,344)</u></u>	<u><u>(10,215,258)</u></u>

The notes on pages 11 to 19 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 6.

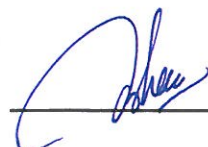
McLeod Russel Africa Limited
Annual report and financial statements
For the year ended 31 December 2018

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December	
		2018 Shs	2017 Shs
EQUITY			
Share capital	10	100,000	100,000
Retained earnings		(26,761,982)	(20,701,638)
Equity attributable to owners of the company		<u>(26,661,982)</u>	<u>(20,601,638)</u>
Non-current liabilities			
Borrowings	11	261,542,046	257,449,859
Deferred tax	12	36,465	-
		<u>261,578,511</u>	<u>257,449,859</u>
		<u>234,916,529</u>	<u>236,848,221</u>
REPRESENTED BY			
Non-current assets			
Plant and equipment	14	2,074,036	2,459,908
Deferred tax		-	1,334,752
		<u>2,074,036</u>	<u>3,794,660</u>
Current assets			
Inventories	15	74,733,199	39,870,046
Trade and other receivables	16	81,701,183	62,211,946
Cash and cash equivalents	17	79,569,700	137,176,739
Tax recoverable		2,006,938	2,006,938
		<u>238,011,020</u>	<u>241,265,669</u>
Current liabilities			
Trade and other payables	18	4,128,605	7,419,786
Other accrued liabilities	13	1,039,922	792,322
		<u>5,168,527</u>	<u>8,212,108</u>
Net current assets		<u>232,842,493</u>	<u>233,053,561</u>
		<u>234,916,529</u>	<u>236,848,221</u>

The financial statements on pages 7 to 19 were authorised and approved for issue by the Board of Directors on 08 - 03 - 2019 and were signed on its behalf by:

 DIRECTOR

 DIRECTOR

The notes on pages 11 to 19 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 2018			
At start of year	100,000	(20,701,638)	(20,601,638)
Loss for the year	-	(6,060,344)	(6,060,344)
At end of year	<u>100,000</u>	<u>(26,761,982)</u>	<u>(26,661,982)</u>
Year ended 31 December 2017			
At start of year	100,000	(10,486,380)	(10,386,380)
Loss for the year	-	(10,215,258)	(10,215,258)
At end of year	<u>100,000</u>	<u>(20,701,638)</u>	<u>(20,601,638)</u>

Report of the independent auditor - pages 5 - 6.

STATEMENT OF CASH FLOWS

	Notes	2018 Shs	2017 Shs
Cash flows from operating activities			
Loss before tax		(4,689,127)	(10,833,595)
Adjustments for:			
Depreciation on plant and equipment	14	602,711	755,798
Interest expense	8	9,199,321	8,100,643
Changes in working capital:			
- inventories		(34,863,153)	(18,581,086)
- trade and other receivables		(19,489,237)	61,551,828
- trade and other payables		(3,291,181)	(15,669,928)
- other accrued liabilities	13	247,600	(724,730)
Interest paid		(9,199,321)	(8,100,643)
Tax paid		-	(3,790,092)
Net cash (used in)/from operating activities		<u>(61,482,387)</u>	<u>12,708,195</u>
Cash flows from investing activities			
Cash paid for purchase of plant and equipment	14	<u>(216,839)</u>	<u>(307,252)</u>
Net cash used in investing activities		<u>(216,839)</u>	<u>(307,252)</u>
Cash flows from financing activities			
Net movement in borrowings		<u>4,092,187</u>	<u>7,317,737</u>
Net cash from financing activities		<u>4,092,187</u>	<u>7,317,737</u>
(Decrease)/Increase in cash and cash equivalents		<u><u>(57,607,039)</u></u>	<u><u>19,718,680</u></u>
Movement in cash and cash equivalents			
At start of year		137,176,739	117,458,059
(Decrease)/Increase		<u>(57,607,039)</u>	<u>19,718,680</u>
At end of year	17	<u><u>79,569,700</u></u>	<u><u>137,176,739</u></u>

The notes on pages 11 to 19 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 6.

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.

Based on the management's assessment despite 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.

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.

NOTES: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

	<u>Rate %</u>
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) Impairment of non-financial assets other than inventories

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) 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.

g) 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.

h) 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 in 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.

i) 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.

j) 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.

k) 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.

l) 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.

NOTES: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Current and deferred income tax (continued)

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.

m) Share capital

Ordinary shares are classified as equity.

n) 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.

o) 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.

p) Comparatives

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

NOTES (CONTINUED)

3. Going concern

The company incurred a loss before tax of Shs 4,689,127 (2017: Shs 10,833,595) for the year ended 31 December 2018 and, as of that date, the company's accumulated losses were Shs 29,761,982 (2017: Shs 20,701,638).

The company has put in place strategies to turn the company to profitable trading and there has been improvement in the later part of the year and subsequently after the year end. The company is also considering part conversion of the parent company loan that will reverse the negative equity position.

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, and the turn a round strategy, the company therefore continues to adopt the going concern basis in preparing the annual financial statements.

4. Revenue	2018 Shs	2017 Shs
Revenue from sale of tea	593,536,823	571,441,957
Commission on agency tea sales (Note 19 (v))	<u>11,599,736</u>	<u>14,752,531</u>
	<u>605,136,559</u>	<u>586,194,488</u>
5. Other operating income		
Sale of packaging bags	715,752	-
Net foreign exchange gain	2,966,132	-
Sale of wooden pallets	<u>-</u>	<u>234,504</u>
	<u>3,681,884</u>	<u>234,504</u>
6. Operating (loss)/profit		
The following items have been charged/(credited) in arriving at the operating (loss)/profit:		
Depreciation on plant and equipment (Note 14)	602,711	755,798
Auditor's remuneration:		
- current year	475,000	475,000
- underprovision in prior year	-	50,000
Staff costs (Note 7)	<u>15,470,733</u>	<u>16,107,370</u>
7 Staff costs		
Salaries and wages	15,068,609	15,049,148
Staff medical expenses	118,476	664,021
Increase/(decrease) in staff leave accrual	247,600	(724,730)
Other staff costs	16,848	1,096,931
Pension costs:		
- National Social Security Fund	<u>19,200</u>	<u>22,000</u>
	<u>15,470,733</u>	<u>16,107,370</u>
The average number of persons employed during the year, by category were:	2018	2017
Management and administration	<u>5</u>	<u>5</u>

8. Finance costs/(income)	2018 Shs	2017 Shs
Net foreign exchange (gain)/losses	(3,420,801)	3,904,887
Interest expense:		
- loan from parent company	<u>9,199,321</u>	<u>8,100,643</u>
	<u>5,778,520</u>	<u>12,005,530</u>

9. Tax		
Current tax	-	-
Deferred tax charge/(credit) (Note 12)	<u>1,371,217</u>	<u>(618,337)</u>
Tax charge/(credit)	<u>1,371,217</u>	<u>(618,337)</u>

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

Loss before tax	<u>(4,689,127)</u>	<u>(10,833,595)</u>
Tax calculated at a tax rate of 30% (2017: 30%)	(1,406,738)	(3,250,079)
Tax effect of :		
- expenses not deductible for tax purpose	<u>2,777,955</u>	<u>2,631,742</u>
Tax charge/(credit)	<u>1,371,217</u>	<u>(618,337)</u>

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

Originating in year	Shs	Expiry
2017	3,537,361	31 December 2026
2018	<u>1,729,452</u>	31 December 2027
Tax losses carried forward	<u>5,266,813</u>	

10. Share capital	2018 Shs	2017 Shs
Authorised, issued and fully paid:		
10,000 (2017: 10,000) ordinary shares of Shs 10 each	<u>100,000</u>	<u>100,000</u>

11. Borrowings

The borrowings are made up as follows:

Non-current

Loan from parent company (Note 19 (i))	<u>261,542,046</u>	<u>257,449,859</u>
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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.

NOTES (CONTINUED)

12. Deferred tax

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

	2018 Shs	2017 Shs
At start of year	(1,334,752)	(716,415)
Charge/(credit) to profit or loss (Note 9)	<u>1,371,217</u>	<u>(618,337)</u>
At end of year	<u>36,465</u>	<u>(1,334,752)</u>

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	(82,926)	(31,733)	(114,659)
Other accrued liabilities	(237,697)	(74,280)	(311,977)
Unrealised exchange gain	47,079	1,996,066	2,043,145
Tax losses carried forward	<u>(1,061,208)</u>	<u>(518,836)</u>	<u>(1,580,044)</u>
Net deferred tax liability	<u>(1,334,752)</u>	<u>1,371,217</u>	<u>36,465</u>

13. Other accrued liabilities

	2018 Shs	2017 Shs
Accrual for outstanding leave days		
At start of year	792,322	1,517,052
Charge/(credit) to profit or loss (Note 7)	<u>247,600</u>	<u>(724,730)</u>
At end of year	<u>1,039,922</u>	<u>792,322</u>

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	508,672	317,373	2,404,672	5,655,717
Additions	<u>-</u>	<u>192,787</u>	<u>24,052</u>	<u>-</u>	<u>216,839</u>
At end of year	<u>2,425,000</u>	<u>701,459</u>	<u>341,425</u>	<u>2,404,672</u>	<u>5,872,556</u>
Depreciation					
At start of year	1,231,447	113,070	199,934	1,651,358	3,195,809
Charge for the year	<u>298,389</u>	<u>73,546</u>	<u>42,447</u>	<u>188,329</u>	<u>602,711</u>
At end of year	<u>1,529,836</u>	<u>186,616</u>	<u>242,381</u>	<u>1,839,687</u>	<u>3,798,520</u>
Net book value					
As at 31 December 2018	<u>895,164</u>	<u>514,843</u>	<u>99,044</u>	<u>564,985</u>	<u>2,074,036</u>
As at 31 December 2017	<u>1,193,553</u>	<u>395,602</u>	<u>117,439</u>	<u>753,314</u>	<u>2,459,908</u>

NOTES (CONTINUED)

15. Inventories	2018 Shs	2017 Shs
Cost of unsold tea	70,504,563	39,870,046
Packaging material	<u>4,228,636</u>	<u>-</u>
	<u>74,733,199</u>	<u>39,870,046</u>
16 Trade and other receivables		
Trade receivables	57,207,793	44,442,507
Prepayments	159,253	1,071,640
Other receivables	9,632,881	7,720,052
Receivable from related parties (Note 19 (ii))	<u>14,701,256</u>	<u>8,977,747</u>
	<u>81,701,183</u>	<u>62,211,946</u>
17. Cash and cash equivalents		
Cash at bank and in hand	<u>79,569,700</u>	<u>137,176,739</u>
18. Trade and other payables		
Current		
Trade payables	3,157,288	456,667
Accruals	971,317	844,259
Other payables	-	3,478,193
Payable to related party (Note 19 (iii))	<u>-</u>	<u>2,640,667</u>
	<u>4,128,605</u>	<u>7,419,786</u>

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	2018 Shs	2017 Shs
At start of year	257,449,859	250,132,122
Interest	9,199,321	7,415,505
Withholding tax on interest	(1,686,333)	(1,997,109)
Exchange difference	<u>(3,420,801)</u>	<u>1,899,341</u>
At end of year (Note 11)	<u>261,542,046</u>	<u>257,449,859</u>

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.

19. Related party transactions and balances (continued)	2018 Shs	2017 Shs
ii) Receivable from related parties		
McLeod Russel Middle East Limited	14,035,002	238,655
McLeod Russel Uganda Limited	552,980	8,739,091
Gisovu Tea Company Ltd	<u>113,274</u>	<u>-</u>
Total related parties (Note 16)	<u>14,701,256</u>	<u>8,977,746</u>
iii) Payable to related party		
McLeod Russel Uganda Limited (Note 18)	<u>-</u>	<u>2,640,667</u>
iv) Key management personnel compensation		
Short term employee benefits	<u>7,267,098</u>	<u>9,141,497</u>
v) Transactions with related parties arising from sale and purchase of goods.		
Sale of teas to other related party	<u>21,997,695</u>	<u>-</u>
Commission from sale of teas on behalf of other related parties (Note 4)	<u>11,599,736</u>	<u>14,752,531</u>
Purchase of teas from other related parties	<u>2,641,556</u>	<u>2,653,980</u>
vi) Transactions with related parties arising from financing		
Interest on borrowing from parent company	<u>9,199,321</u>	<u>8,100,643</u>

No provision has been required in 2018 and 2017 in respect of related party balances.

20. Contingent liabilities

There were no contingent liabilities as at year end.

21. Commitments

Operating lease commitments - as a lessee

The company leases various properties under a cancellable operating lease agreement. 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 1,493,318 (2017: Shs 2,665,994) and is included under establishment expenses.

22. Presentation currency

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

SCHEDULE OF EXPENDITURE

1. DIRECT COSTS	2018 Shs	2017 Shs
Opening stock of tea	39,870,046	21,193,607
Purchases of tea	583,092,661	541,422,205
Other direct costs	32,178,941	30,593,626
Closing stock of tea	<u>(74,733,199)</u>	<u>(39,870,046)</u>
Total direct cost	<u>580,408,449</u>	<u>553,339,392</u>
2. ADMINISTRATIVE EXPENSES		
Employment costs:		
Salaries and wages	15,087,809	15,071,148
Staff medical expenses	118,476	664,021
Increase/(decrease) in staff leave accrual	247,600	(724,730)
Other staff costs	<u>16,848</u>	<u>1,096,931</u>
Total employment costs	<u>15,470,733</u>	<u>16,107,370</u>
Other administration expenses:		
Postage and telephone	495,229	2,611,599
Vehicle running and maintenance	454,742	486,979
Travelling and accommodation	1,572,870	1,722,196
Printing and stationery	234,345	133,682
Audit fees:		
- current	475,000	475,000
- underprovision in prior year	-	50,000
Legal and professional fees	1,726,765	1,576,620
Secretarial fees	47,450	66,850
Bank charges and commissions	1,674,627	1,575,614
Cleaning expenses	2,770	12,989
Subscriptions	248,104	-
Entertainment	369,892	217,140
Advertisement and promotions	58,310	1,427,079
Miscellaneous	50,762	25,000
Fines and penalty	<u>-</u>	<u>599,918</u>
Total other administration expenses	<u>7,410,866</u>	<u>10,980,666</u>
Total administrative expenses	<u>22,881,599</u>	<u>27,088,036</u>
3. OTHER OPERATING EXPENSES		
Establishment:		
Rent and rates	1,493,318	2,665,994
Electricity and water	235,347	169,000
Repairs and maintenance	1,686,184	123,558
Insurance	249,742	784,114
Licenses	171,700	331,165
Depreciation on plant and equipment	<u>602,711</u>	<u>755,798</u>
Total other operating expenses	<u>4,439,002</u>	<u>4,829,629</u>

SCHEDULE OF EXPENDITURE (CONTINUED)

4. NET FINANCE COSTS	2018 Shs	2017 Shs
Net foreign exchange (gain)/loss	(3,420,801)	3,904,887
Interest expense: related party loan	<u>9,199,321</u>	<u>8,100,643</u>
Total finance costs	<u>5,778,520</u>	<u>12,005,530</u>