# McLEOD RUSSEL MIDDLE EAST DMCC

## Financial Statements

*31 December 2020*

*Registered office:*

Unit no. DTTC-G-029 and 030,
Dubai Tea Trading Center,
Plot No. S10814,
Jebel Ali Free Zone-South
P.O.Box 340505
Dubai, U.A.E.

# McLEOD RUSSEL MIDDLE EAST DMCC

## Financial Statements
*31 December 2020*

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# McLEOD RUSSEL MIDDLE EAST DMCC
## Report of the Manager

The manager submits his report and financial statements for the year ended 31 December 2020.

### Results and dividend

The profit for the year amounted to US $ 44,045/-. To conserve the financial resources of the company, the director did not recommend any dividend.

### Review of the business

The company is registered and engaged to carry out the business of blending, packaging and trading in tea. The blending and packing activities are carried out at DMCC Tea Centre facility only.

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now to predict the full extent and duration of its business and economic impact.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. The COVID 19 pandemic is an unprecedented challenge for humanity and for the economy globally and at the date of this report, its effect is subject to significant levels of uncertainty. The management has implemented various initiatives and has enough financial resources to mitigate the effect on the business of the company and expects to overcome any future impact on profits and operating cash flows due to effects of the outbreak.

### Events since the end of the year

There were no important events, which have occurred since the year end that materially affect the company.

### Shareholder and its interest

The sole shareholder at 31 December 2020 and its interest as at that date in the share capital of the company was as follows:

| *Name of the shareholder* | *Country of incorporation* | *No. of shares* | *AED* | *Equivalent US $* |
|---|---|---|---|---|
| Borelli Tea Holdings Limited<br>*(Represented by Mr. Dilsher Sen)* | United Kingdom | 200 | 200,000 | 54,500 |

### Auditors

A resolution to re-appoint **KSI Shah & Associates** as auditors and fix their remuneration will be put to the board at the annual general meeting.

**Mr. Dilsher Sen**
Manager

## Independent Auditors' Report to the Shareholder/Directors' of McLEOD RUSSEL MIDDLE EAST DMCC

### Report on the Audit of the Financial Statements

### Opinion

We have audited the accompanying financial statements of **McLEOD RUSSEL MIDDLE EAST DMCC** (the "Company"), which comprises of the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and explanatory notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as of 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### 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 the UAE, 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.

### Emphasis of matter

Without qualifying our audit opinion, we draw attention to note no 8 (a) to the financial statements which states that receivables of US $ 220,598/- due from a customer are old for more than 180 days. In the opinion of the management, these receivables are good and recoverable since the customer has confirmed the balances outstanding as of the reporting date, based on follow up with a customer and hopeful of recoveries, and hence no provision for doubtful debts is required.

### Other Information

Management is responsible for the other information. Other information comprises the manager's report, which we obtained prior to the date of this auditor's report. The other information 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.

# Independent Auditors' Report to the Shareholder/directors' of McLEOD RUSSEL MIDDLE EAST DMCC

## Report on the Audit of the Financial Statements (contd.)

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

## Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines 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, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## Auditors' 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 skepticism 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.

## Independent Auditors' Report to the Shareholder/directors' of McLEOD RUSSEL MIDDLE EAST DMCC

### Report on the Audit of the Financial Statements (contd.)

- 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 management.
- Conclude on the appropriateness of management's 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

We further confirm that we have obtained all information and explanations necessary for our audit and that proper financial records have been maintained by the company in accordance with the DMCC Company Regulations No. 1/03 issued in 2003.To the best of our knowledge and belief no violations of said regulations have occurred which would have had a material effect on the business of the company or on its financial position.

KSI Shah & Associates

For KSI Shah & Associates
Dubai, U.A.E.
Signed by:
Sonal P. Shah (Registration No. 123)

P.O. Box 71241
Dubai - U.A.E.
KSI SHAH & ASSOCIATES

*20 March 2021*

# McLEOD RUSSEL MIDDLE EAST DMCC

## Statement of Financial Position
*At 31 December 2020*

| | Notes | 2020 US $ | 2019 US $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Fixed assets | 6 | **2,934** | **1,248** |
| **Current assets** | | | |
| Inventories | 7 | 482,058 | 835,778 |
| Trade and other receivables | 8 | 554,339 | 595,533 |
| Prepayments | | 115,442 | 43,923 |
| Cash and bank balances | 9 | 18,843 | 30,974 |
| | | **1,170,682** | **1,506,208** |
| **TOTAL ASSETS** | | **1,173,616** | **1,507,456** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 10 | 54,500 | 54,500 |
| Accumulated profits | | 180,243 | 136,198 |
| **Equity funds** | | **234,743** | **190,698** |
| Shareholder's loan account | 11 | 279,718 | 455,747 |
| **Total equity** | | **514,461** | **646,445** |
| **Non-current liability** | | | |
| Staff end of service gratuity | | **53,511** | **46,243** |
| **Current liability** | | | |
| Trade and other payables | 12 | **605,644** | **814,768** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,173,616** | **1,507,456** |

*The accompanying notes 1 to 20 form an integral part of these financial statements.*
*The Independent Auditors' Report is set forth on pages 2 to 4.*
*Approved by the board of directors on 20th March 2021 and signed on their behalf by the authorized signatory.*

**For McLEOD RUSSEL MIDDLE EAST DMCC**

**Mr. Dilsher Sen**
Director of the company and
Representing **Borelli Tea Holdings Limited**, *U.K.*

**Mr. Azam Monem**
Director

# McLEOD RUSSEL MIDDLE EAST DMCC

## Statement of Comprehensive Income
*for the year ended 31 December 2020*

| | Notes | 2020 US $ | 2019 US $ |
|---|---|---|---|
| **Sales** | | **2,668,116** | **2,826,282** |
| Cost of sales | 13 | (2,248,753) | (2,343,184) |
| **Gross profit** | | **419,363** | **483,098** |
| Provision no longer payable reversed | | - | 6,770 |
| Expenses | 14 | (366,578) | (330,855) |
| **Profit from operating activities for the year** | | **52,785** | **159,013** |
| Finance costs | 15, 16 | (8,740) | (34,228) |
| **Profit for the year** | | **44,045** | **124,785** |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year** | | 44,045 | 124,785 |

*The accompanying notes 1 to 20 form an integral part of these financial statements.*

# McLEOD RUSSEL MIDDLE EAST DMCC

## Statement of Changes in Equity
*for the year ended 31 December 2020*

| | *Share capital* *US $* | *Accumulated profits* *US $* | *Shareholder's loan account* *US $* | *Total* *US $* |
|---|---|---|---|---|
| **As at 31 December 2018** | **54,500** | **11,413** | **522,631** | **588,544** |
| Changes during the year | - | - | (66,884) | (66,884) |
| Profit for the year | - | 124,785 | - | 124,785 |
| **As at 31 December 2019** | **54,500** | **136,198** | **455,747** | **646,445** |
| Changes during the year | - | - | (176,029) | (176,029) |
| Profit for the year | - | 44,045 | - | 44,045 |
| **As at 31 December 2020** | **54,500** | **180,243** | **279,718** | **514,461** |

*The accompanying notes 1 to 20 form an integral part of these financial statements.*

# McLEOD RUSSEL MIDDLE EAST DMCC

## Statement of Cash Flows
*for the year ended 31 December 2020*

| | Notes | 2020 US $ | 2019 US $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 44,045 | 124,785 |
| Adjustments for: | | | |
| Depreciation | | 1,003 | 735 |
| Provision for staff end of service gratuity | | 7,268 | 8,928 |
| Finance costs | | 8,740 | 34,228 |
| **Operating profit before working capital changes** | | **61,056** | **168,676** |
| Changes in inventories | | 353,720 | (118,340) |
| Changes in trade and other receivables | | 41,194 | 133,006 |
| Changes in prepayments | | (71,519) | (8,819) |
| Changes in trade and other payables | | (209,124) | (62,699) |
| **Net cash from operating activities** | | **175,327** | **111,824** |
| **Cash flows from investing activities** | | | |
| Purchase of fixed assets | | (2,689) | - |
| **Net cash (used in) investing activities** | | **(2,689)** | **-** |
| **Cash flows from financing activities** | | | |
| Changes in shareholder's loan account | | (176,029) | (66,884) |
| Finance costs paid | | (8,740) | (34,228) |
| **Net cash (used in) financing activities** | | **(184,769)** | **(101,112)** |
| **Changes in cash and cash equivalents** | | **(12,131)** | **10,712** |
| **Cash and cash equivalents at beginning of the year** | | **30,974** | **20,262** |
| **Cash and cash equivalents at end of the year** | 9 | **18,843** | **30,974** |

*The accompanying notes 1 to 20 form an integral part of these financial statements.*

**McLEOD RUSSEL MIDDLE EAST DMCC**
(Incorporated in Dubai Multi Commodities Centre, U.A.E.)
(Registration No DMCC2565)

## Notes to the Financial Statements
*for the year ended 31 December 2020*

## 1. Legal status and business activity

a) **McLEOD RUSSEL MIDDLE EAST DMCC** ("The Company") is a free zone company with limited liability, registered on 9 May 2011 with Dubai Multi Commodities Centre, Dubai, U.A.E., under industrial license no. DMCC-31687.

b) The company is registered and engaged to carry out the business of blending, packaging and trading in tea. The blending and packing activities are carried out at DMCC Tea Centre facility only.

## 2. Basis of preparation

### a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards issued or adopted by the International Accounting Standards Board (IASB) and which are effective for accounting periods beginning on or after 1 January 2020 and the implementing rules and regulations of the Dubai Multi Commodities Centre Dubai.

### b) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities which are being measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange of assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety as described below:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

### c) Functional and presentation currency

The functional currency of the company is U.A.E. Dirhams. These financial statements are presented in United States Dollars (USD), which in the opinion of the management is the most appropriate presentation currency in view of the global presence of the company. U.A.E. Dirham is currently pegged to USD and there are no differences on translation from functional to presentation currency.

# McLEOD RUSSEL MIDDLE EAST DMCC

## Notes to the Financial Statements
*for the year ended 31 December 2020*

## 3. Use of estimates and judgment

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**Judgments made in applying accounting policies**

The significant judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

As a result of the COVID-19 and the resulting disruptions to the social and economic activities, the Company continues to assess regularly the impact of COVID-19 on its business, in particular the reduction of sales, the erosion in value of its inventories and collectability of receivables. The management considered several foreseeable areas of operational risk and implemented various measures to ensure the continuity of the operations and the ability of the organization to cope with the lock-down situation. The COVID 19 pandemic is an unprecedented challenge for humanity and for the economy globally and at the date of this report, its effect is subject to significant levels of uncertainty. The management has implemented various initiatives and has enough financial resources to mitigate the effect on the business of the company and expects to overcome any future impact or profits and operating cash flows due to effects of the outbreak.

***Revenue from contracts with customers***

- Timing for transfer of control of goods

  In case of performance obligation satisfied at point in time, the control of goods is transferred, when physical delivery of the goods to the agreed location has occurred, as a result, the company has a present right to payment and retains none of the significant risks and rewards of the goods.

- Financing components

  The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year from the due date. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

***Impairment***

At each reporting date, management conducts an assessment of fixed assets, and all other financial assets to determine whether there are any indications that they may be impaired. In the absence of such indications, no further action is taken. If such indications do exist, an analysis of each asset is undertaken to determine its net recoverable amount and, if this is below its carrying amount, a provision is made.

# McLEOD RUSSEL MIDDLE EAST DMCC

## Notes to the Financial Statements
*for the year ended 31 December 2020*

**Key sources of estimation uncertainty and assumptions**

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

***Residual values of fixed assets***

Residual values are assumed to be zero unless a reliable estimate of the current value can be obtained for similar assets of ages and conditions that are reasonably expected to exist at the end of the assets' estimated useful lives.

***Estimated useful life of fixed assets***

Management determines the estimated useful lives and depreciation charge for its fixed assets at the time of addition of the assets and is reviewed on annual basis.

***Inventory provision***

Management regularly undertakes a review of the company's inventory, in order to assess the likely realization proceeds, taking in account purchase and replacement prices, age, likely obsolescence, the rate at which goods are being sold and the physical damage. Based on the assessment assumptions are made as to the level of provisioning required.

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

The loss allowance for financial assets is based on assumptions about the risk of default and expected loss rates. The management uses judgement in making these assumptions and selecting the inputs to the impairment calculations based on the past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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

Assessments of net recoverable amounts of fixed assets are based on assumptions regarding future cash flows expected to be received from the related assets.

***Staff end-of-service gratuity***

The company computes the provision for the liability to staff end-of-service gratuity assuming that all employees were to leave as of the reporting date. The management is of the opinion that no significant difference would have arisen had the liability been calculated on an actuarial basis as salary inflation and discount rates are likely to have approximately equal and opposite affects.

# McLEOD RUSSEL MIDDLE EAST DMCC

## Notes to the Financial Statements
*for the year ended 31 December 2020*

*Revenue from contracts with customers*

**i. Determining the transaction price**

The Company's revenue is from sale of goods is derived from fixed price contracts with customers and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices. Based on the historical performance of the company, it is highly probable that there will not be reversal of previously recognized revenue on account of the return of goods or volume rebates.

**ii. Allocating the transaction prices**

There is a fixed unit price for each item sold to the customer. Therefore, there is no judgment involved in allocating the contract price to each unit ordered in contracts with customers. Where a customer orders more than one item, the Company is able to determine the split of the total contract price between each item by reference to each product's standalone selling prices (all product lines are capable of being, and are, sold separately).

**iii. Provision of rights to return goods, volume rebates and other similar obligations**

The Company reviews its estimate of expected returns at each reporting date on basis of the historical data for the returns, rebates and other similar obligations and updates the amounts of the asset and liability accordingly.

## 4. Adoption of new and revised International Financial Reporting Standards

### a) New and revised International Financial Reporting Standards

The following International Financial Reporting Standards (IFRSs), amendments and interpretations issued by IASB that became effective for the current reporting period:

- Amendments to IAS 1 and IAS 8 - Definition of Material
- Amendments to IFRS 3 - Definition of a Business;
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform;
- Amendments to References to Conceptual Framework in IFRS standards;

During the current year, the management has adopted the above amendments to the extent applicable to them from their effective dates.

The company has also elected to adopt the following amendments early:

- Amendments to IFRS 16 Leases- COVID-19-Related Rent Concessions.

These amendments have no significant impact on the amounts reported in these consolidated financial statements.

Their adoption has resulted in presentation and disclosure changes only.

**b) International Financial Reporting Standards issued but not effective**

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16- Interest Rate Benchmark Reform-phase 2. The effective date of the amendments is set for annual periods beginning on or after 1 January 2021.

Amendments to IAS 16-Property, Plant and Equipment: Proceeds before Intended Use The effective date of the amendments is set for annual periods beginning on or after 1 January 2022

Amendments to IAS 37-Onerous Contracts – Cost of Fulfilling a Contract (The effective date of the amendments is set for annual periods beginning on or after 1 January 2022.

References to the Conceptual Framework (Amendments to IFRS 3) - The effective date of the amendments is set for annual periods beginning on or after 1 January 2022.

Annual Improvements to IFRS Standards 2018–2020 – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture. The effective date of the amendments is set for annual periods beginning on or after 1 January 2022.

Amendments to IAS 1 - Classification of Liabilities as Current or Non-current - The effective date of the amendments is set for annual periods beginning on or after 1 January 2023.

IFRS17 -Insurance Contracts- The effective date of the standard is set for annual periods beginning on or after 1 January 2023.

Amendments to IFRS 10 and IAS 28-Sale or Contribution of Assets between and investor and its Associate or Joint Venture. The effective date of these amendments is deferred indefinitely.

The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 5. Significant accounting policies

**a) Depreciation of fixed assets**

The cost of fixed assets is depreciated by equal annual installments over their estimated useful lives of 1 to 4 years.

Depreciation on additions is calculated on a pro-rata basis from the month of addition of the asset.

# McLEOD RUSSEL MIDDLE EAST DMCC

## Notes to the Financial Statements
*for the year ended 31 December 2020*

### b) Financial instruments

**Recognition and Initial measurement**

The Company recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are measured at fair value on initial recognition. Transaction costs that are directly attributable in relation to financial assets and financial liabilities, other than those carried at fair value through profit or loss (FVTPL), are added to the fair value on initial recognition.

**Classification and subsequent measurement of financial assets**

For the purpose of subsequent measurement, financial assets are classified as follows:

***Financial assets at amortised cost (debt instruments)***

Financial assets that are held within a business model whose objective is to hold the asset in order to collect contractual cash flows that are solely payments of principal and interest are subsequently measured at amortised cost less impairments, if any. Interest income calculated using effective interest rate (EIR) method and impairment loss, if any are recognised in the statement of profit and loss. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include trade receivables, other current financial assets and cash and cash equivalents. Due to the short term nature of current receivables, their carrying amounts are considered to be the same as their fair values.

**Classification and subsequent measurement of financial liabilities**

For the purpose of subsequent measurement, financial liabilities are classified as follows:

- Amortised cost - Financial liabilities are classified as financial liabilities at amortised cost by default. Interest expense calculated using EIR method is recognised in the statement of profit and loss.

- Fair values through profit or loss (FVTPL) - Financial liabilities are classified as FVTPL if it is held for trading, or is designated as such on initial recognition. Changes in fair value and interest expense on these liabilities are recognised in the statement of profit and loss.

The company's financial liabilities include trade and other payables. The carrying amounts of financial liabilities are considered as to be the same as their fair values, due to their short term nature.

# McLEOD RUSSEL MIDDLE EAST DMCC

## Notes to the Financial Statements
*for the year ended 31 December 2020*

**Derecognition of financial assets and financial liabilities**

Financial assets are de-recognised when, and only when,
- The contractual rights to receive cash flows expire or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  a) the Company has transferred substantially all the risks and rewards of the asset, or
  b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

**Offsetting of financial instruments**

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

**Impairment of financial assets**

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

Expected credit losses are recognised in two stages.

- For credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12-months.

- For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

# McLEOD RUSSEL MIDDLE EAST DMCC

## Notes to the Financial Statements
*for the year ended 31 December 2020*

**Impairment of financial assets (contd.)**

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

**c) Inventories**

Inventories are valued at lower of cost using the weighted average method or net realizable value.

Cost comprises invoice value plus attributable direct expenses.

Net realizable value is based on estimated selling price less any further costs expected to be incurred for disposal.

**f) Provision**

Provisions are recognized when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation at the end of the reporting period, using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of receivable can be measured reliably.

**g) Staff end of service benefits**

Provision is made for end-of-service gratuity payable to the staff, subject to the completion of a minimum service period, at the reporting date in accordance with the local labour laws.

**h) Value Added Tax**

The revenue, expenses and assets are recognized net of value-added tax (VAT). In case Input VAT paid to the supplier of asset or expense is not recoverable from the Federal Tax Authority, it is disclosed as part of asset acquired or expense incurred.

Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from or VAT payable to, Federal Tax Authority is disclosed as other payable or other receivable under current liabilities or current assets in the statement of financial position.

i) **Short-term lease**

The Company applies the short-term lease recognition exemption to its short-term leases of office premises (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

j) **Contingencies**

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

k) **Revenue recognition**

**Sales of goods**

The company is in the business of blending, packaging and trading in tea.

Revenue from sale of goods is recognized at a point in time when control of the goods has transferred to the customer. This is generally when the goods are delivered to the customers and have been accepted by the customers at their premises and there is no unfulfilled obligation that could affect customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer or the company has objective evidence that all criteria for acceptance have been satisfied.

The amount of revenue is shown as net of discounts, returns, other similar obligations and VAT as per the performance obligations determined as per the provisions of the contracts with customers.

l) **Borrowing costs**

Finance expense comprises interest expense on shareholder's loan account and on delayed payment to suppliers are recognized in Statement of Comprehensive Income.

m) **Cash and cash equivalents**

Cash and cash equivalents for the purpose of the cash flow statement comprise cash and cheques on hand, bank balance in current accounts, deposits free of encumbrance with a maturity date of three months or less from the date of deposit and highly liquid investments with a maturity date of three months or less from the date of investment.

n) **Dividend**

Dividend is paid out of accumulated profits, when declared.

# McLEOD RUSSEL MIDDLE EAST DMCC

## Notes to the Financial Statements
*for the year ended 31 December 2020*

## 6. Fixed assets

| | Furniture and office equipment US $ |
|---|---|
| **Cost** | |
| As at 01.01.2020 | 9,707 |
| Additions during the year | 2,689 |
| Written off during the year | (3,277) |
| As at 31.12.2020 | 9,119 |
| **Depreciation** | |
| As at 01.01.2020 | 8,459 |
| Charge for the year | 1,003 |
| Relating to write-offs | (3,277) |
| As at 31.12.2020 | 6,185 |
| **Net book value** | |
| As at 31.12.2020 | 2,934 |
| As at 31.12.2019 | 1,248 |

## 7. Inventories

| | 2020 US $ | 2019 US $ |
|---|---|---|
| Trading inventories | 383,889 | 720,206 |
| Goods in transit | 98,169 | 115,572 |
| | 482,058 | 835,778 |

## 8. Trade and other receivables

| | 2020 US $ | 2019 US $ |
|---|---|---|
| Trade receivables [a] | 536,134 | 582,231 |
| Deposits | 7,494 | 7,823 |
| Staff advance and other receivables | 10,711 | 5,479 |
| | 554,339 | 595,533 |

[a] *Includes **0-90 days:** US $ 251,013/-, **91-180 days:** US $ 64,523/-, **181-365 days:** US $ 220,598/-.*

*In the opinion of the management, US $ 220,598/- old receivables are good and recoverable since this customer has confirmed the balances outstanding as of the reporting date, based on follow up with a customer and hopeful of recoveries, and hence no provision for doubtful debts is required.*

## 9. Cash and bank balances

| | 2020 US $ | 2019 US $ |
|---|---|---|
| Cash in hand | 665 | 206 |
| Bank balances in: | | |
| Current accounts | 18,178 | 30,768 |
| | 18,843 | 30,974 |

| | 2020 US $ | 2019 US $ |
|---|---|---|

## 10. Share capital

| | 2020 US $ | 2019 US $ |
|---|---|---|
| Authorized, issued and paid up 200 shares of AED 1,000/- each *(converted US $ @ AED 3.669 each)* | 54,500 | 54,500 |

## 11. Shareholder's loan account [1]

| | 2020 US $ | 2019 US $ |
|---|---|---|
| Balance at beginning of the year | 455,747 | 522,631 |
| Repayment during the year | (176,703) | (75,000) |
| Interest accrued on loan *(refer note 16)* | 674 | 8,116 |
| | 279,718 | 455,747 |

[1] *Represents unsecured, fixed interest bearing loan @ 8% p.a., repayable on or before 31 March 2023, from the sole shareholder of the company, Borelli Tea Holdings Limited, United Kingdom. Includes US $ 279,718/- (previous year US $ 417,969/-) towards interest accrued on this loan balance.*

## 12. Trade and other payables

| | 2020 US $ | 2019 US $ |
|---|---|---|
| Trade payables *(refer note 16)* | 531,732 | 771,908 |
| Due to a related party *(refer note 16)* | 3,615 | 3,615 |
| Accruals | 70,297 | 39,245 |
| | 605,644 | 814,768 |

## 13. Cost of sales

| | 2020 US $ | 2019 US $ |
|---|---|---|
| Inventory at the beginning of the year | 720,206 | 544,439 |
| Purchases *(refer note 16)* | 1,797,761 | 2,371,644 |
| Related direct costs of purchases | 114,675 | 147,307 |
| Inventory at the end of the year | (383,889) | (720,206) |
| | 2,248,753 | 2,343,184 |

## 14. Expenses

| | 2020 US $ | 2019 US $ |
|---|---|---|
| Staff salaries and benefits | 220,358 | 222,940 |
| Rent expenses | 20,306 | 20,285 |
| Consultancy expenses | 75,714 | - |
| Other administration expenses *(refer note 16)* | 49,197 | 86,895 |
| Depreciation | 1,003 | 735 |
| | 366,578 | 330,855 |

## 15. Finance costs

| | 2020 US $ | 2019 US $ |
|---|---|---|
| Interest on shareholder's loan account *(refer notes 11 and 16)* | 674 | 8,116 |
| Interest on delayed payment to supplier *(refer note 16)* | 8,066 | 26,112 |
| | 8,740 | 34,228 |

# McLEOD RUSSEL MIDDLE EAST DMCC

## Notes to the Financial Statements
*for the year ended 31 December 2020*

## 16. Related party transactions

For the purpose of these financial statements, parties are considered to be related to the company, if the company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making party financial and operating decisions, or vice versa, or where the company and the party are subject to common control and includes where the company has significant influence but not control, and generally does not have any controlling shareholding on the entity whose accounts are presented. Related party may be individuals or other entities.

The nature of significant related party transactions and the amounts involved during the year are as under:

| | *Shareholder* *US $* | *Companies under common control* *US $* | *Total 2020* *US $* | *Total 2019* *US $* |
|---|---|---|---|---|
| **Purchases** *(refer note 13)* | | | | |
| McLeod Russel India Limited | - | 138,977 | 138,977 | 55,859 |
| McLeod Russel Africa Limited | - | 1,265,195 | 1,265,195 | 1,355,260 |
| McLeod Russel Uganda Limited | - | 52,920 | 52,920 | 42,379 |
| **Expenses** | | | | |
| McLeod Russel Africa Limited | - | - | - | 2,700 |
| McLeod Russel Uganda Limited | - | 468 | 468 | - |
| Interest on shareholder's loan account *(refer note 11)* | 674 | - | 674 | 8,116 |
| **Interest on delayed payments** | | | | |
| McLeod Russel Africa Limited | - | 8,066 | 8,066 | 22,650 |
| McLeod Russel Uganda Limited | - | - | - | 3,462 |

As of the reporting date, balances with related parties, were as follows:

| | *Shareholder* *US $* | *Companies under common control* *US $* | *Total 2020* *US $* | *Total 2019* *US $* |
|---|---|---|---|---|
| **Included under current liabilities:** | | | | |
| Trade payables *(refer note 12)* | | | | |
| McLeod Russel Africa Ltd | - | 441,751 | 441,751 | 579,469 |
| McLeod Russel Uganda Ltd. | - | 4,680 | 4,680 | 16,615 |
| McLeod Russel India Limited | - | 54,133 | 54,133 | - |
| Due to a related party – **McLeod Russel India Ltd.** *(refer note 12)* | - | 3,615 | 3,615 | 3,615 |
| **Shareholder's loan account** – Borelli Tea Holdings Limited *(refer note 11)* | 279,718 | - | 279,718 | 455,747 |

# McLEOD RUSSEL MIDDLE EAST DMCC

## Notes to the Financial Statements
*for the year ended 31 December 2020*

## 17. Financial instrument risks

The company has exposure to the following risks from use of its financial instruments:

a) Credit risk
b) Market risk
c) Liquidity risk

### a) Credit risk

Financial assets, which potentially expose the company to concentrations of credit risk, comprise principally of trade and other receivables and bank balances.

The Company's management has been closely monitoring the possible impact of COVID-19 including the default risk of the industry and the country in which the customer operates to ensure the adequacy of allowance for expected credit loss towards trade and other receivables.

***Trade receivables***

As at 31 December 2020, the company's exposure on account of significant concentration of credit risk for amounts receivable situated within U.A.E. amounted to US $ 522,053/- due from two customers *(previous year US $ 576,144/- due from two customers).*

There is no significant concentration of credit risk from trade and other receivables situated outside U.A.E. or outside the industry in which the company operates.

***Bank balances***

The company's bank balances in current accounts is placed with a high credit quality financial institution.

### b) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as exchange rate risk, interest rate risk or other price risk, which will affect the company's income or the value of its holding of financial instruments.

Financial instruments affected by market risk include interest-bearing loans and borrowings, deposits, financial assets at fair value through other comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

***Interest rate risk***

Interest on the shareholder's loan account is at fixed rate of interest @ 8% p.a.

## McLEOD RUSSEL MIDDLE EAST DMCC

### Notes to the Financial Statements
*for the year ended 31 December 2020*

*Exchange rate risk*

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in US Dollars or U.A.E. Dirham to which the US Dollar is fixed.

**c) Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet financial obligations as they fall due. The liquidity requirements are monitored on a regular basis by the owners and the management who ensure that sufficient funds are made available to the company to meet any future commitments.

Global stress in the markets brought by the COVID-19 crisis is being felt globally through lack of liquidity. In this environment, the Company has already taken measures to manage its liquidity carefully until the crisis is over. The company's management has been closely monitoring the cash flows and forecasts on a weekly basis to maintain a reasonably healthy balance sheet during this time and beyond.

The following are the contractual maturities of the company's financial liabilities as of 31 December 2020.

| *Non-derivative financial liabilities* | *Carrying amounts* US $ | *Payable within next 12 months* US $ | *Payable after 12 months* US $ |
|---|---|---|---|
| Trade and other payables | 605,644 | 605,644 | - |
| Staff end of service gratuity | 53,511 | - | 53,511 |

## 18. Financial instruments: Fair values

The fair values of the company's financial assets comprising of trade and other receivables and cash and bank balances, and financial liabilities comprising of trade and other payables that approximate to their carrying values.

## 19. Contingent liability

There was no significant liability, contingent in nature, as of the reporting date.

## 20. Comparative figures

Previous year's figures have been regrouped / reclassified wherever necessary to conform to the presentation adopted in the current year.

## Company's Audit Financial Statement Summary Sheet

| | | | |
|---|---|---|---|
| **Company Information** | | | |
| Company Name | INFINITY & BEYOND DMCC | | |
| Portal Account No. | 145782 | | |
| Customer License No. | DMCC227501 | | |
| **Financial Information (Amount in UAE - Dirham)** | | | |
| Year Start Date | 01.04.2020 | Year End Date | 31.03.2021 |
| Total Share Capital | 200,000 | Reserves | - |
| Retained Earnings/(Accumulated | 4,185,624 | Shareholders current account/Loans | 12,384,320 |
| | | Total Equity (System Calculated) | 16,769,944 |
| Fixed Assets (Net) | 1,562,312 | Total Depreciation | 443,655 |
| Current Assets | 21,886,944 | Non-Current Assets excluding Fixed Assets | - |
| | | Total Assets (System Calculated) | 23,449,256 |
| Current Liabilities | 6,679,312 | Non-Current Liabilities | - |
| | | Total Liabilities (System Calculated) | 6,679,312 |
| Annual Sales/Annual Turnover | 79,575,476 | Cost of Revenue/ Goods Sold | 78,411,425 |
| Total Salaries | 900,001 | All other expenses | 590,210 |
| | | All other income | 38,436 |
| Gross Profit/Loss | 1,164,051 | Net Profit/Loss | (287,724) |
| **Auditor's Information** | | | |
| Audit Firm Name | KSI SHAH & ASSOCIATES | | |
| Auditor's Signature | | Date | 15.04.2021 |
| Auditor's Seal | KSI SHAH & ASSOCIATES P.O. Box 71241 Dubai - U.A.E. KSI Shah & Associates | | |