McLEOD RUSSEL MIDDLE EAST DMCC

Financial Statements

31 December 2018

Registered office:

Unit no. DTTC-G-029,
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 2018

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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 2018.

Results

The profit for the year amounted to US $ 170,690/-.

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.

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 2018 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 *(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

Dubai - U.A.E.
Mcleod Russel Middle East DMCC
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Independent Auditors' Report to the Shareholder/Direcors' 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 2018, 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 2018 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.

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.

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.

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

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

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.
- 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.

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

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

- 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)

کے ایس آي شاه و مشارکوه
P.O. Box 71241
Dubai - U.A.E.
KSI SHAH & ASSOCIATES

6 March 2019

McLEOD RUSSEL MIDDLE EAST DMCC

Statement of Financial Position
At 31 December 2018

	Notes	2018 US $	2017 US $
ASSETS			
Non-current assets			
Fixed assets	7	1,983	2,812
Current assets			
Inventories	8	717,438	426,477
Trade and other receivables	9	728,539	445,533
Prepayments		35,104	26,873
Cash and bank balances	10	20,262	150,187
		1,501,343	1,049,070
TOTAL ASSETS		1,503,326	1,051,882
EQUITY AND LIABILITIES			
Equity			
Share capital	11	54,500	54,500
Accumulated profits/(losses)		11,413	(159,277)
Equity funds		**65,913**	**(104,777)**
Shareholder's loan account	12	522,631	585,282
Total equity		588,544	480,505
Non-current liability			
Staff end of service gratuity		37,315	30,667
Current liability			
Trade and other payables	13	877,467	540,710
TOTAL EQUITY AND LIABILITIES		1,503,326	1,051,882

The accompanying notes 1 to 21 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 6th March 2019 and signed on their behalf by the authorized signatory.

For McLEOD RUSSEL MIDDLE EAST DMCC

Dubai - U.A.E.
McLeod Russel Middle East DMCC

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

McLEOD RUSSEL MIDDLE EAST DMCC

Statement of Comprehensive Income
for the year ended 31 December 2018

	Notes	2018 US $	2017 US $
Sales		**3,088,240**	**3,721,615**
Cost of sales	14	(2,560,405)	(3,170,023)
Gross profit		**527,835**	**551,592**
Provision no longer payable reversed		-	14,586
Expenses	15	(344,796)	(349,877)
Profit from operating activities for the year		**183,039**	**216,301**
Finance costs	16, 17	(12,349)	(16,500)
Profit for the year		**170,690**	**199,801**
Other comprehensive income		-	-
Total comprehensive income for the year		**170,690**	**199,801**

The accompanying notes 1 to 21 form an integral part of these financial statements.

McLEOD RUSSEL MIDDLE EAST DMCC

Statement of Changes in Equity
for the year ended 31 December 2018

	Share capital *US $*	*Accumulated profits/(losses)* *US $*	*Shareholder's loan account* *US $*	*Total* *US $*
As at 31 December 2016	**54,500**	**(359,078)**	**618,782**	**314,204**
Changes during the year	-	-	(33,500)	(33,500)
Profit for the year	-	199,801	-	199,801
As at 31 December 2017	**54,500**	**(159,277)**	**585,282**	**480,505**
Changes during the year	-	-	(62,651)	(62,651)
Profit for the year	-	170,690	-	170,690
As at 31 December 2018	**54,500**	**11,413**	**522,631**	**588,544**

The accompanying notes 1 to 21 form an integral part of these financial statements.

McLEOD RUSSEL MIDDLE EAST DMCC

Statement of Cash Flows
for the year ended 31 December 2018

	Notes	2018 US $	2017 US $
Cash flows from operating activities			
Profit for the year		170,690	199,801
Adjustments for:			
Depreciation		1,098	739
Provision for staff end of service gratuity		6,648	7,686
Interest on shareholder's loan account		12,349	16,500
Operating profit before working capital changes		**190,785**	**224,726**
Changes in inventories		(290,961)	154,888
Changes in trade and other receivables		(283,006)	(47,480)
Changes in prepayments		(8,231)	6,023
Changes in trade and other payables		336,757	(154,073)
Net cash (used in)/from operating activities		**(54,656)**	**184,084**
Cash flows from investing activities			
Purchase of fixed assets		(269)	(3,497)
Net cash (used in) investing activities		**(269)**	**(3,497)**
Cash flows from financing activities			
Changes in shareholder's loan account		(62,651)	(33,500)
Interest payable to the shareholder		(12,349)	(16,500)
Net cash (used in) financing activities		**(75,000)**	**(50,000)**
Changes in cash and cash equivalents		**(129,925)**	**130,587**
Cash and cash equivalents at beginning of the year		**150,187**	**19,600**
Cash and cash equivalents at end of the year	10	**20,262**	**150,187**

The accompanying notes 1 to 21 form an integral part of these financial statements.

Notes to the Financial Statements
for the year ended 31 December 2018

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 2018 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 2018

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:

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.

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.

McLEOD RUSSEL MIDDLE EAST DMCC

Notes to the Financial Statements
for the year ended 31 December 2018

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 and contract assets

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.

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.

McLEOD RUSSEL MIDDLE EAST DMCC

Notes to the Financial Statements
for the year ended 31 December 2018

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, amendments thereto and interpretations issued by IASB that became effective for the current reporting period and which are applicable to the company are as follows:

- IFRS 9 - Financial Instruments
- IFRS 15 – Revenue from contracts with customers
- Clarifications to IFRS 15- Revenue from contracts with customers
- IFRIC Interpretation 22-Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40- Transfers of Investment Property
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IFRS 1 and IAS 28 as per annual improvements to IFRS standards 2014-16 cycle

During the current year, the management has adopted the above standards and amendments to the extent applicable to them from the financial reporting period commencing on or after 1 January 2018.

The significant impacts of IFRS 9, IFRS 15 and other amendments as listed above on the amounts reported and their presentation are disclosed wherever applicable.

McLEOD RUSSEL MIDDLE EAST DMCC

Notes to the Financial Statements
for the year ended 31 December 2018

b) International Financial Reporting Standards issued but not effective

IFRS 16 – Leases – The effective date of the standard is set for annual periods beginning on or after 1 January 2019.

IFRS17 -Insurance Contracts- The effective date of the standard is set for annual periods beginning on or after 1 January 2021.

IFRIC23-uncertainty of Income Tax Position- The effective date of the interpretation is set for annual periods beginning on or after 1 January 2019.

Amendments to IFRS9-Prepayment features with negative compensation. The effective date of the amendment is set for annual periods beginning on or after 1 January 2019.

Amendments to IAS 28- Long term interests in Associates and Joint Ventures. The effective date of the amendment is set for annual periods beginning on or after 1 January 2019.

Amendments to IFRSs- Annual improvements to IFRS Standards 2015-17 Cycle.

Amendments to IAS19-Plan amendments, curtailments or settlements. The effective date of the amendment is set for annual periods beginning on or after 1 January 2019.

Amendments to IFRS10 and IAS 28-Sale or contribution of assets between an investor and its associate or joint venture. These amendments will apply when they become effective.

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

5. Significant Changes in the current reporting period

a) IFRS 9 Financial Instruments

The Company has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by transitional provisions of IFRS 9, the Company elected not to restate the comparative figures. Any adjustments to carrying amounts of financial assets and liabilities at the date of transitions were recognized in opening retained earnings and other reserves of the current year.

IFRS 9 Financial Instruments (contd.)

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 - Financial Instruments: Disclosures.

There is no material impact on adoption of IFRS 9 in the financial statements at the adoption date and the reporting date, however the presentation and disclosure requirements of IFRS 9 have been dealt with as relevant to the Company.

b) IFRS 15 Revenue from contracts with customers:

This standard on revenue recognition replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" and related interpretations.

IFRS 15 is more perspective, provides detailed guidance on revenue recognition and reduced the use of judgment in applying revenue recognition policies and practices as compared to the replaced IFRS and related interpretations.

Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

The core principle of IFRS 15 is that an entity recognizes revenue as it transfers the promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange of those goods or services.

IFRS 15 also includes a comprehensive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainly of revenue and cash flows arising from the entity's contracts with customers.

The Company has assessed that the impact of IFRS 15 is not material on the financial statements of the company as at the adoption date and the reporting date.

6. 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.

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 value.

Financial assets at fair value through other comprehensive income with recycling of cumulative gains and losses (debt instruments)

Financial assets that are held within a business model whose objective is achieved by both holding the asset in order to collect contractual cash flows that are solely payments of principal and interest and by selling the financial assets, are subsequently measured at fair value through other comprehensive income. Changes in fair value are recognized in the other comprehensive income (OCI) and on derecognition, cumulative gain or loss previously recognised in OCI is reclassified to the statement of profit and loss. Interest income calculated using EIR method and impairment loss, if any are recognised in the statement of profit and loss.

Financial assets designated at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading.

Financial assets designated at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition (equity instruments) (contd.)

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

A financial asset which is not classified in any of the above categories are subsequently measured at fair value through profit or loss. Changes in fair value and income on these assets are recognised in the statement of profit and loss. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

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 2018

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.

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.

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Notes to the Financial Statements
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Value Added Tax (contd.)

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) 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.

j) 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.

k) Borrowing costs

Finance expense comprises interest expense on shareholder's loan account is recognized in Statement of Comprehensive Income.

l) 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.

m) Dividend

Dividend is paid out of accumulated profits, when declared.

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Notes to the Financial Statements
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7. Fixed assets

	Furniture and office equipment
	US $
Cost	
As at 01.01.2018	9,438
Additions during the year	269
As at 31.12.2018	**9,707**
Depreciation	
As at 01.01.2018	6,626
Charge for the year	1,098
As at 31.12.2018	**7,724**
Net book value	
As at 31.12.2018	**1,983**
As at 31.12.2017	**2,812**

8. Inventories

	2018	*2017*
	US $	*US $*
Trading inventories	544,439	383,999
Goods in transit	172,999	42,478
	717,438	**426,477**

9. Trade and other receivables

Trade receivables	713,177	435,973
Deposits	7,494	7,494
Staff advance and other receivables	7,868	2,066
	728,539	**445,533**

10. Cash and bank balances

Cash in hand	3,547	2,319
Bank balances in:		
Current accounts	16,715	147,868
	20,262	**150,187**

11. Share capital

Authorized, issued and paid up		
200 shares of AED 1,000/- each	**54,500**	**54,500**
(converted US $ @ AED 3.6725 each)		

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Notes to the Financial Statements
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	2018 US $	2017 US $
12. Shareholder's loan account [1]		
Balance at beginning of the year	585,282	618,782
Repayment during the year	(75,000)	(50,000)
Interest accrued on loan *(refer note 17)*	12,349	16,500
	522,631	**585,282**

[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.*

13. Trade and other payables

	2018 US $	2017 US $
Trade payables *(refer note 17)*	786,753	504,533
Due to a related party *(refer note 16)*	5,412	594
Accruals [a]	85,302	35,583
	877,467	**540,710**

[a] *Excludes amount of US$ 33,046/- (previous year US$ 33,046/-) confirmed by the service provider receivable from the company, as per statement of account. This liability is not accounted by the company as the management believes that this amount does not belong to the company and are in process of resolving error with the service provider.*

	2018 US $	2017 US $
14. Cost of sales		
Inventory at the beginning of the year	383,999	505,609
Purchases *(refer note 17)*	2,605,646	2,939,661
Related direct costs of purchases *(refer note 17)*	115,199	108,752
Inventory at the end of the year	(544,439)	(383,999)
	2,560,405	**3,170,023**

15. Expenses

	2018 US $	2017 US $
Staff salaries and benefits	229,924	231,933
Other administration expenses	113,774	117,205
Depreciation	1,098	739
	344,796	**349,877**

16. Finance costs

	2018 US $	2017 US $
Interest on shareholder's loan account *(refer notes 12 and 17)*	**12,349**	**16,500**

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17. 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	*Companies under common control*	*Total 2018*	*Total 2017*
	US $	*US $*	*US $*	*US $*
Purchases *(refer note 14)*				
McLeod Russel India Limited	-	99,520	99,520	206,318
McLeod Russel Africa Limited	-	271,000	271,000	54,675
McLeod Russel Uganda Limited	-	665,450	665,450	715,785
Phuben Tea Company Limited	-	11,631	11,631	454,941
Pfunda Tea Company Limited	-	271,972	271,972	135,851
Gisovu Company Limited	-	133,020	133,020	33,275
Expenses				
McLeod Russel India Limited	-	5,412	5,412	594
McLeod Russel Uganda Limited		2,816	5,412	788
Interest on shareholder's loan account *(refer note 12)*	12,349	-	12,349	16,500

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

	Shareholder	*Companies under common control*	*Total 2018*	*Total 2017*
	US $	*US $*	*US $*	*US $*
Included under current liabilities:				
Trade payables *(refer note 13)*				
McLeod Russel Africa Ltd	-	197,268	197,268	2,312
McLeod Russel Uganda Ltd.	-	167,000	167,000	105,366
McLeod Russel India Limited	-	79,863	79,863	-
Pfunda Tea Company Ltd.				30,872
Phuben Tea Company Ltd				9,045
Gisovu Company Ltd		374	374	788
Due to a related party – **McLeod Russel India Ltd.** *(refer note 13)*	-	5,412	5,412	594
Shareholder's loan account – Borelli Tea Holdings Limited *(refer note 12)*	522,631	-	522,631	585,282

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Notes to the Financial Statements
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18. 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.

Trade receivables

As at 31 December 2018, the company's exposure on account of significant concentration of credit risk for amounts receivable situated within U.A.E. amounted to US $ 647,773/- due from 3 customers *(previous year US $ 404,034/- due from 2 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.

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.

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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.

The following are the contractual maturities of the company's financial liabilities as of 31 December 2018.

Non-derivative financial liabilities	*Carrying amounts* *US $*	*Payable within next 12 months* *US $*	*Payable after 12 months* *US $*
Trade and other payables	834,153	834,153	-
Staff end of service gratuity	37,315	-	37,315

19. 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.

20. Contingent liability

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

21. Comparative figures

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