



**MCLEOD RUSSEL AFRICA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

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COMPANY INFORMATION

BOARD OF DIRECTORS	: D. Sen (British) : A. Khaitan (Indian) : P. Bhar (Indian)
REGISTERED OFFICE	: L.R. No. 277, Section XXI, Ralli House : Nyerere Avenue, Mombasa : P. O. Box 41184 - 80100 : Mombasa
PRINCIPAL PLACE OF BUSINESS	: Mombasa Block XXI/396 & 397 : Tea House, 1st Mezzanine Floor, South Wing, : Off Nyerere Avenue : P. O. Box 41184 - 80100 : Mombasa
INDEPENDENT AUDITOR	: PKF Kenya LLP : Certified Public Accountants : P. O. Box 90553 - 80100 : Mombasa
COMPANY SECRETARY	: ESR Kenya LLP : Certified Public Secretaries : P. O. Box 90553 - 80100 : Mombasa
PRINCIPAL BANKERS	: KCB Bank Kenya Limited : Mombasa
ULTIMATE PARENT	: McLeod Russel India Limited : India
PARENT	: Borelli Tea Holdings Limited : United Kingdom

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2023, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITY

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

BUSINESS REVIEW

The total turnover of the company increased from Shs 381,019,732 in 2022 to Shs 804,677,159 in 2023. This is due to a significant increase in volumes traded coupled with the effect of the favourable US Dollar rate against the Kenya Shilling. Consequently, the company registered a profit before tax of shs 25,252,665 in 2023 from a loss before tax of shs 201,923 in 2022.

Key performance indicators	2023	2022
Turnover (Shs)	804,677,159	381,019,732
Gross profit (Shs)	87,449,492	33,034,994
Gross profit margin (%)	10.9%	8.7%
Profit/(loss) for the year (Shs)	17,106,828	6,951,089
Net liabilities (Shs)	(21,866,749)	(38,973,577)

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on overall demand of the company's products. The company's strategic focus is to enhance sales growth whilst maintaining profit margins, the success of which remains dependent on overall market conditions.

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

Credit risk

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

Cash flow and foreign currency risk

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

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REPORT OF THE DIRECTORS (CONTINUED)

Liquidity risk

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

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2022 Shs Nil).

DIRECTORS

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

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

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR


With respect to each director at the time this report was approved:

- (a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and
- (b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information

TERMS OF APPOINTMENT OF THE AUDITOR

PKF Kenya LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fee.

BY ORDER OF THE BOARD



DIRECTOR

30/04/2024

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company, and that disclose, with reasonable accuracy, the financial position of the company and that enables them to prepare financial statements of the company that comply with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act, 2015. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

The directors confirm that the financial statements give a true and fair view of the financial position of the company as at 31 December 2023 and of the company's financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-Entities and the requirements of the Kenyan Companies Act, 2015.

Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern for at least the next twelve months from the date of this statement.

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

Approved by the board of directors on 30/04/ 2024 signed on its behalf by.



DIRECTOR



DIRECTOR



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

Opinion

We have audited the financial statements of McLeod Russel Africa Limited, set out on pages 8 to 20 which comprise the statement of financial position as at 31 December 2023, the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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

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

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

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS for SMEs, and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Responsibilities of Directors for the Financial Statements (continued)

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis for accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

.....continued on page 7



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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 the matters described by the Kenyan Companies Act, 2015.

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

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

A handwritten signature in blue ink, appearing to read 'Piyush Ramesh Devchand Shah', with a horizontal line underneath.

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

2 May 2024

0088/2024

STATEMENT OF PROFIT OR LOSS

	Notes	2023 Shs	2022 Shs
Revenue	3	804,677,159	381,019,732
Cost of sales		<u>(717,227,667)</u>	<u>(347,984,738)</u>
Gross profit		87,449,492	33,034,994
Other operating income	4	254,756	334,130
Administrative expenses		(21,886,108)	(19,023,155)
Other operating expenses		<u>(1,870,643)</u>	<u>(1,731,702)</u>
Operating profit	5	63,947,497	12,614,267
Finance costs	7	<u>(38,694,832)</u>	<u>(12,816,190)</u>
Profit/(loss) before tax		25,252,665	(201,923)
Tax (charge)/credit	8	<u>(8,145,837)</u>	<u>7,153,012</u>
Profit for the year		<u><u>17,106,828</u></u>	<u><u>6,951,089</u></u>

The notes on pages 12 to 20 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 7.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December	
		2023 Shs	2022 Shs
EQUITY			
Share capital	9	100,000	100,000
Retained earnings		(21,966,749)	(39,073,577)
Equity attributable to owners of the company		<u>(21,866,749)</u>	<u>(38,973,577)</u>
Non-current liabilities			
Borrowings	10	218,300,089	189,691,483
		<u>196,433,340</u>	<u>150,717,906</u>
REPRESENTED BY			
Non-current assets			
Plant and equipment	12	387,725	540,269
Deferred tax	11	16,856,547	9,185,078
		<u>17,244,272</u>	<u>9,725,347</u>
Current assets			
Inventories	13	40,954,525	47,943,869
Trade and other receivables	14	176,429,330	99,366,573
Cash and cash equivalents	15	21,230,564	8,335,042
		<u>238,614,419</u>	<u>155,645,484</u>
Current liabilities			
Trade and other payables	16	43,562,386	14,607,265
Tax payable		15,862,965	45,660
		<u>59,425,351</u>	<u>14,652,925</u>
Net current assets		<u>179,189,058</u>	<u>140,992,559</u>
		<u>196,433,340</u>	<u>150,717,906</u>

The financial statements on pages 8 to 20 were authorised and approved for issue by the Board of Directors on 30/09/2024 and were signed on its behalf by:


 _____ DIRECTOR


 _____ DIRECTOR

The notes on pages 12 to 20 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 7

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	Retained earnings Shs	Total Shs
Year ended 31 December 2023			
At start of year	100,000	(39,073,577)	(38,973,577)
Profit for the year	<u>-</u>	<u>17,106,828</u>	<u>17,106,828</u>
At end of year	<u><u>100,000</u></u>	<u><u>(21,966,749)</u></u>	<u><u>(21,866,749)</u></u>
Year ended 31 December 2022			
At start of year	100,000	(46,024,666)	(45,924,666)
Profit for the year	<u>-</u>	<u>6,951,089</u>	<u>6,951,089</u>
At end of year	<u><u>100,000</u></u>	<u><u>(39,073,577)</u></u>	<u><u>(38,973,577)</u></u>

The notes on pages 12 to 20 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 7.

STATEMENT OF CASH FLOWS

	Notes	2023 Shs	2022 Shs
Cash flows from operating activities			
Profit/(loss) before tax		25,252,665	(201,923)
Adjustments for:			
Depreciation on plant and equipment	12	210,044	210,044
Unrealised foreign exchange loss	7	25,508,501	8,301,711
Interest expense (net)	7	13,186,331	4,514,479
Cash flows from operating activities before changes in working capital		64,157,541	12,824,311
Changes in working capital:			
- inventories		6,989,344	(30,935,561)
- trade and other receivables		(77,062,757)	5,868,402
- trade and other payables		28,955,120	3,704,843
Cash generated from/(used in) operations		23,039,248	(8,538,005)
Interest paid		(480,851)	-
Tax paid		-	(59,824)
Net cash generated from/(used in) operating activities		22,558,397	(8,597,829)
Cash flows from investing activities			
Cash paid for purchase of plant and equipment	12	(57,500)	(77,603)
Net cash used in investing activities		(57,500)	(77,603)
Cash flows from financing activities			
Repayments of borrowings		(9,605,375)	5,030,786
Net cash used in financing activities		(9,605,375)	5,030,786
Increase/(decrease) in cash and cash equivalents		12,895,522	(3,644,646)
Movement in cash and cash equivalents			
At start of year		8,335,042	11,979,688
Increase/(decrease)		12,895,522	(3,644,646)
At end of year	15	21,230,564	8,335,042

The notes on pages 12 to 20 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 7.

NOTES

1. General information

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

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

2. Significant accounting policies

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

a) Basis of preparation

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

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

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

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

Going concern

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

Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

b) Key sources of estimation uncertainty and judgements

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

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

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

NOTES (CONTINUED)

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

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

c) Revenue recognition

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

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

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

d) Plant and equipment

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

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

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

	<u>Rate %</u>
Office equipment	12.5
Computer equipment	30.0
Furniture and fittings	25.0

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

The assets residual values, useful lives and methods of depreciation are reviewed at the end of each reporting period and adjusted prospectively, if appropriate.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings in the statement of changes in equity.

e) Financial assets

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

NOTES (CONTINUED)

e) **Financial assets (continued)**

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

f) **Cash and cash equivalents**

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

g) **Inventories**

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

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

h) **Financial liabilities**

Financial liabilities are initially recognised at the transaction price (less transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest. Interest bearing liabilities are subsequently measured at amortised cost using the effective interest method.

Borrowings are recognised initially at the transaction price (that is, present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

i) **Translation of foreign currencies**

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

j) **Taxation**

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

Current tax

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

Deferred tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

NOTES (CONTINUED)

j) Taxation (continued)

Deferred tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Offsetting

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

Value Added tax (VAT)

Expenses and assets are recognised net of the amount of VAT except:

- when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables are stated with the amount of VAT included

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

k) Share capital

Ordinary shares are classified as equity.

l) Leases

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

m) Employee benefit obligations

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

n) Accrued leave

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

o) Borrowing costs

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

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

p) Comparatives

There were no changes in presentation in the current year.

NOTES (CONTINUED)

3. Revenue	2023 Shs	2022 Shs
Revenue from sale of tea	<u>804,677,159</u>	<u>381,019,732</u>
4. Other operating income		
Gain on blended tea	<u>254,756</u>	<u>334,130</u>
	<u>254,756</u>	<u>334,130</u>
5. Operating profit		
The following items have been charged in arriving at the operating profit:		
Depreciation on plant and equipment (Note 12)	210,044	210,048
Auditor's remuneration	660,000	575,000
Operating lease rentals	1,256,736	1,245,633
Staff costs (Note 6)	<u>11,156,717</u>	<u>12,447,158</u>
6. Staff costs		
Salaries, wages and other staff costs	11,108,397	12,437,558
Post-employment benefits		
- National Social Security Fund	<u>48,320</u>	<u>9,600</u>
	<u>11,156,717</u>	<u>12,447,158</u>
The average number of persons employed during the year, by category were:		
	2023 No.	2022 No.
Management and administration	<u>4</u>	<u>4</u>
7. Finance costs	2023 Shs	2022 Shs
Interest expense:		
- related party loan and balances	15,160,297	6,577,837
Less: interest received	<u>(1,973,966)</u>	<u>(2,063,358)</u>
Net interest expense	13,186,331	4,514,479
Net foreign exchange loss	<u>25,508,501</u>	<u>8,301,711</u>
	<u>38,694,832</u>	<u>12,816,190</u>

NOTES (CONTINUED)

8. Tax	2023 Shs	2022 Shs
Current tax	15,817,306	2,032,066
Underprovision of deferred tax in prior years	-	(8,713,880)
Deferred tax credit (Note 11)	<u>(7,671,469)</u>	<u>(471,198)</u>
Tax charge/(credit)	<u>8,145,837</u>	<u>(7,153,012)</u>

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

Profit/(loss) before tax	<u>25,252,665</u>	<u>(201,924)</u>
Tax calculated at a tax rate of 30% (2022: 30%)	7,575,800	(60,577)
Tax effect of :		
- expenses not deductible for tax purpose	570,037	1,621,445
Underprovision of deferred tax in prior years	<u>-</u>	<u>(8,713,880)</u>
Tax charge/(credit)	<u>8,145,837</u>	<u>(7,153,012)</u>

9. Share capital

Authorised, issued and fully paid:

10,000 (2022: 10,000) ordinary shares of Shs 10 each	<u>100,000</u>	<u>100,000</u>
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10. Borrowings

The borrowings are made up of the following:

Non-current

Loan from parent company (Note 17 (i))	<u>218,300,089</u>	<u>189,691,483</u>
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The loan from the parent company is unsecured, earns interest at a rate of LIBOR + 2% per annum and will not be recalled within the next twelve months from the reporting date but payable when the borrower is in a position to do so.

11. Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using the enacted tax rate of 30% (2022: 30%). The movement on the deferred tax account is as follows:

	2023 Shs	2022 Shs
At start of year	(9,185,078)	-
Underprovision in prior years (Note 8)	-	(8,713,880)
Credit to profit or loss (Note 8)	<u>(7,671,469)</u>	<u>(471,198)</u>
At end of year	<u>(16,856,547)</u>	<u>(9,185,078)</u>

NOTES (CONTINUED)

11. Deferred tax (continued)

Deferred tax is attributed to the following items:

	At start of year Shs	Credit to profit or loss Shs	At end of year Shs
Deferred tax (assets)			
Plant and equipment: accelerated tax depreciation	(221,529)	(10,505)	(232,034)
Provisions	(289,408)	(8,414)	(297,822)
Unrealised foreign exchange differences	(8,674,141)	(7,652,550)	(16,326,691)
Net deferred tax asset	<u>(9,185,078)</u>	<u>(7,671,469)</u>	<u>(16,856,547)</u>

12. Plant and equipment

	Office equipment Shs	Computer equipment Shs	Furniture and fittings Shs	Total Shs
Cost				
At start of year	825,062	437,925	2,404,672	3,667,659
Additions	10,500	47,000	-	57,500
At end of year	<u>835,562</u>	<u>484,925</u>	<u>2,404,672</u>	<u>3,725,159</u>
Accumulated depreciation				
At start of year	419,914	408,736	2,298,740	3,127,390
Charge for the year	56,316	47,796	105,932	210,044
At end of year	<u>476,230</u>	<u>456,532</u>	<u>2,404,672</u>	<u>3,337,434</u>
Net carrying amount				
As at 31 December 2023	<u>359,332</u>	<u>28,393</u>	<u>-</u>	<u>387,725</u>
As at 31 December 2022	<u>405,148</u>	<u>29,189</u>	<u>105,932</u>	<u>540,269</u>

13. Inventories

	2023 Shs	2022 Shs
Tea stock	36,187,429	42,572,666
Packaging material	4,767,096	5,371,203
	<u>40,954,525</u>	<u>47,943,869</u>

NOTES (CONTINUED)

14. Trade and other receivables	2023 Shs	2022 Shs
Trade receivables	121,985,731	56,010,636
Prepayments and deposits	511,516	474,297
Loan receivable	5,441,135	4,222,702
Other receivables	12,980,068	14,042,637
Receivable from related parties (Note 17 (v))	35,510,880	24,616,301
	<u>176,429,330</u>	<u>99,366,573</u>

15. Cash and cash equivalents

Cash at bank and in hand	<u>21,230,564</u>	<u>8,335,042</u>
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For the purpose of the cash flow statement, cash and cash equivalents comprises the above balance.

16. Trade and other payables	2023 Shs	2022 Shs
Trade payables	25,559,319	3,717,899
Accruals	1,942,879	2,305,875
Payable to related party (Note 17 (vi))	16,060,188	8,583,491
	<u>43,562,386</u>	<u>14,607,265</u>

17. Related party transactions and balances

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

The following transactions were carried out with related parties:

i) Loans and advances from parent company	2023 Shs	2022 Shs
At start of year	189,691,483	171,844,511
Interest	14,689,351	6,565,240
Withholding tax on interest	(1,983,871)	(731,161)
Repayments	(32,432,921)	(3,433,050)
Foreign exchange difference	48,336,047	15,445,942
	<u>177,100,089</u>	<u>189,691,483</u>
At end of year (Note 10)	<u>218,300,089</u>	<u>189,691,483</u>

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

NOTES (CONTINUED)

17. Related party transactions and balances (continued)

ii) Sale of goods and services	2023 Shs	2022 Shs
Sale of teas to other related party	<u>111,515,354</u>	<u>77,829,869</u>
Late payment interest on sales to other related party	<u>1,740,841</u>	<u>1,106,895</u>
iii) Purchase of goods and services		
Purchase of teas from other related party	<u>41,545,082</u>	<u>10,243,233</u>
Interest on borrowing from parent company	<u>15,160,297</u>	<u>6,577,837</u>
iv) Key management personnel compensation		
Short term employee benefits	<u>9,697,982</u>	<u>10,693,844</u>
v) Outstanding balances arising from sale of goods and services		
Receivable from related parties (Note 14)	<u>35,510,880</u>	<u>24,616,301</u>
No provision has been required in 2023 and 2022 in respect of related party balances.		
vi) Outstanding balances arising from purchase of goods		
Payables to related party (Note 16)	<u>16,060,188</u>	<u>8,583,491</u>

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

18. Contingent liabilities

There were no contingent liabilities as at the reporting date (2022: Nil)

19. Commitments

Operating lease commitments - as a lessee

The company leases a property under a cancellable operating lease. The lease term is for a period of 6 years from 1st June 2018 to 31st May 2024. To terminate this lease the company must give a notice of 3 months. The expenditure to lease this property amounted to Shs 1,256,736 (2022: Shs 1,245,233) and is included under establishment expenses.

20. Presentation currency

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

SCHEDULE OF COST OF SALES AND EXPENDITURE

1. COST OF SALES	2023 Shs	2022 Shs
Opening stock of tea	47,943,869	17,008,308
Purchases of tea	629,414,383	344,714,431
Other direct costs	80,823,940	34,205,868
Closing stock of tea	<u>(40,954,525)</u>	<u>(47,943,869)</u>
Total cost of sales	<u>717,227,667</u>	<u>347,984,738</u>
2. ADMINISTRATIVE EXPENSES		
Employment costs:		
Salaries and wages	10,531,392	11,569,357
Staff medical expenses	427,741	512,384
Increase in staff leave accrual	28,047	339,643
Other staff costs	<u>169,537</u>	<u>25,774</u>
Total employment costs	<u>11,156,717</u>	<u>12,447,158</u>
Other administration expenses:		
Postage and telephone	630,753	506,890
Vehicle running and maintenance	478,731	295,000
Travelling and accommodation	1,807,548	1,442,023
Printing and stationery	255,595	189,920
Audit fees	660,000	575,000
Legal and professional fees	3,492,117	1,789,600
Secretarial fees	73,750	61,643
Bank charges and commissions	2,428,767	761,534
Cleaning expenses	-	1,350
Subscriptions	240,970	375,556
Entertainment	134,544	20,580
Miscellaneous	459,079	129,691
Bad debts written off	-	362,578
Fines and penalties	<u>67,537</u>	<u>64,632</u>
Total other administration expenses	<u>10,729,391</u>	<u>6,575,997</u>
Total administrative expenses	<u>21,886,108</u>	<u>19,023,155</u>
3. OTHER OPERATING EXPENSES		
Establishment:		
Rent and rates	1,256,736	1,245,233
Electricity and water	319,058	195,937
Repairs and maintenance	35,150	30,840
Licenses	49,655	49,644
Depreciation on plant and equipment	<u>210,044</u>	<u>210,048</u>
Total other operating expenses	<u>1,870,643</u>	<u>1,731,702</u>