PKF

CORRESPONDENCE COPY

McLEOD RUSSEL AFRICA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS	: D. Sen (British) : A. Khaitan (Indian) : A. Monem (Indian) : P. Bhar (Indian)
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	: Mombasa Block XXI/396 &397 : Tea House, Nyerere Avenue : P. O. Box 41184 - 80100 : Mombasa
INDEPENDENT AUDITOR	: PKF Kenya : Certified Public Accountants : P. O. Box 90553 - 80100 : Mombasa
COMPANY SECRETARIES	: Equatorial Secretaries and Registrars : Certified Public Secretaries : P. O. Box 90553 - 80100 : Mombasa
PRINCIPAL BANKER	: KCB Bank Kenya Limited : Mombasa : Stanbic Bank Kenya Limited : Mombasa
PARENT COMPANY	: Borelli Tea Holdings Limited : United Kingdom
ULTIMATE PARENT COMPANY	: McLeod Russel India Limited : India

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2019 which disclose the state of affairs of the company.

PRINCIPAL ACTIVITY

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

BUSINESS REVIEW

The total turnover of the company decreased from Shs 593,536,823 in 2018 to Shs 527,923,724 in 2019. This is mainly attributable to decrease in tea prices the during the year. The loss before tax increased from Shs 4,689,127 in 2018 to shs 6,091,050 in 2019 primarily due to the the effects of reduction in revenue and increased finance costs.

As at 31 December 2019, the net liability position of the company was Shs.33,416,088 compared to Shs 26,661,982 as at 31 December 2018.

Key performance indicators	2019	2018
Turnover (Shs)	527,923,724	593,536,823
Gross profit (Shs)	23,958,939	13,128,374
Gross profit margin (%)	4.5	2.2
Commission on agency tea sales (Shs)	3,054,150	11,599,736
Loss for the year (Shs)	(6,754,106)	(6,060,344)
Net liabilities (Shs)	(33,416,088)	(26,661,982)

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

Credit risk

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

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 (2018: Shs Nil).

DIRECTORS

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

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

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

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

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

TERMS OF APPOINTMENT OF THE AUDITOR

PKF Kenya continues in office in accordance with the company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of Shs 525,000 has been charged to profit or loss in the year.

BY ORDER OF THE BOARD

DIRECTOR
MOMBASA

16 April 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31 December 2019 and of the company's financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act, 2015.

In preparing these financial statements the directors have assessed the company's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the company will not remain 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 their responsibilities.

Approved by the board of directors on 16 | 04 | 2020 signed on its behalf by:

DIRECTOR

DIRECTOR

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

Opinion
We have audited the financial statements of McLeod Russel Africa Limited, set out on pages 7 to 19 which comprise the statement of financial position as at 31 December 2019, 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 2019, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and the Kenyan Companies Act, 2015.

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

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

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

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

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

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

Those charged wit i governance are responsible for overseeing the company's financ al reporting process.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on matters prescribed by the Kenyan companies Act, 2015.
In our opinion the information given in the report of the directors on pages 2 and 3 is consistent with the financial statements.

PKF Kenya LLP
Certified Public Accountants
Mombasa
CPA Piyush Ramesh Devchand Shah, Practising Certificate No. 1521
Signing partner responsible for the independent audit

17-4-2020

0063/2020

STATEMENT OF PROFIT OR LOSS

	Notes	2019 Shs	2018 Shs
Revenue	4	527,923,724	593,536,823
Cost of sales		(503,964,785)	(580,408,449)
Gross profit		23,958,939	13,128,374
Other operating income	5	3,994,267	15,281,620
Administrative expenses		(22,778,641)	(22,881,599)
Other operating expenses		(2,573,157)	(4,439,002)
Operating profit	6	2,601,408	1,089,393
Finance costs	8	(8,692,458)	(5,778,520)
Loss before tax		(6,091,050)	(4,689,127)
Tax charge	9	(663,056)	(1,371,217)
Loss for the year		(6,754,106)	(6,060,344)

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

Report of the independent auditor - pages 5 - 6.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2019 Shs	2018 Shs
EQUITY			
Share capital	10	100,000	100,000
Retained earnings		(33,516,088)	(26,761,982)
Equity attributable to owners of the company		(33,416,088)	(26,661,982)
Non-current liabilities			
Borrowings	11	268,656,840	261,542,046
Deferred tax	12	699,521	36,465
		269,356,361	261,578,511
		235,940,273	234,916,529
REPRESENTED BY			
Non-current assets			
Plant and equipment	14	1,614,931	2,074,036
		1,614,931	2,074,036
Current assets			
Inventories	15	51,231,176	74,733,199
Trade and other receivables	16	115,318,642	81,701,183
Cash and cash equivalents	17	70,605,488	79,569,700
Tax recoverable		2,006,938	2,006,938
		239,162,244	238,011,020
Current liabilities			
Trade and other payables	18	3,784,351	4,128,605
Other accrued liabilities	13	1,052,551	1,039,922
		4,836,902	5,168,527
Net current assets		234,325,342	232,842,493
		235,940,273	234,916,529

The financial statements on pages 7 to 19 were authorised and approved for issue by the Board of Directors on 16 / 04 / 2020 and were signed on its behalf by:

DIRECTOR

DIRECTOR

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

Report of the independent auditor - pages 5 - 6.

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	Retained earnings Shs	Total Shs
Year ended 31 December 2019			
At start of year	100,000	(26,761,982)	(26,661,982)
Loss for the year	-	(6,754,106)	(6,754,106)
At end of year	100,000	(33,516,088)	(33,416,088)
Year ended 31 December 2018			
At start of year	100,000	(20,701,638)	(20,601,638)
Loss for the year	-	(6,060,344)	(6,060,344)
At end of year	100,000	(26,761,982)	(26,661,982)

Report of the independent auditor - pages 5 - 6.

NOTES: SIGNIFICANT ACCOUNTING POLICIES

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

1. General information

McLeod Russel Africa Limited is a limited liability company incorporated in Kenya. The address of its registered office and its principal place of business is in Mombasa, Kenya. Their principal activity is that of trading in tea.

2. a) Basis of preparation

The financial statements of McLeod Russel Africa Limited have been prepared in accordance with the 'International Financial Reporting Standard for Small and Medium-sized Entities' (IFRS for SMEs).

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

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

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

Going concern

The financial performance of the company is set out in the directors' report and in the statement of profit or loss. The financial position of the company is set out in the statement of financial position.

Based on the management's assessment despite the financial indicators as disclosed in Note 3, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

b) Key sources of estimation uncertainty

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Going concern- The directors have excercised significant judgement in assessing that the preparation of these financial statements on a going concern basis is appropriate. In making this assesment, factors like current financial position, future business prospects, future profitability and cash flows including support of the parent company have been considered.

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

Useful lives of plant and equipment - the management reviews the useful lives and residual values of the items of plant and equipment on a regular basis. During the financial year, the management determined no significant changes in the useful lives and residual values.

g) **Inventories**

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

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

h) **Borrowings**

Borrowings are recognised initially at the transaction price (that is, the present value of cash payable to the lender, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

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

i) **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.

j) **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.

k) **Current and deferred income tax**

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

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

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

Offsetting

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

3. Going concern

The company incurred a loss for the year of Shs 6,605,916 (2018: Shs 6,060,344) during the year ended 31 December 2019 and, as of that date, there was a deficit in equity attributable to owners of the company of Shs 33,267,898 (2018: Shs 26,661,982).

The parent company has confirmed their willingness to provide financial support to the company to enable it meet its liabilities as they fall due, and not to demand repayment of amounts due to them in a manner that would jeopardize the company's ability to continue as a going concern for atleast twelve months from the date of issue of these financial statements. In view of this financial support, the company therefore continues to adopt the going concern basis in preparing the annual financial statements.

4. Revenue

	2019 Shs	2018 Shs
Revenue from sale of tea	527,923,724	593,536,823

5. Other operating income

	2019 Shs	2018 Shs
Commission on agency tea sales (Note 19 (iv))	3,054,150	11,599,736
Sale of packaging bags	360,002	715,752
Net foreign exchange gain	-	2,966,132
Gain on blended tea	273,610	-
Miscellaneous income	306,505	-
	3,994,267	15,281,620

6. Operating profit

The following items have been charged in arriving at the operating profit:

	2019 Shs	2018 Shs
Depreciation on plant and equipment (Note 14)	459,105	602,711
Auditor's remuneration:		
- current year	525,000	475,000
- underprovision in prior year	25,000	-
Operating lease rentals	1,164,384	1,493,318
Staff costs (Note 7)	14,898,461	15,470,733

7. Staff costs

	2019 Shs	2018 Shs
Salaries and wages	14,660,187	15,068,609
Staff medical expenses	198,645	118,476
Increase in staff leave accrual (Note 13)	12,629	247,600
Other staff costs	3,000	16,848
Pension costs:		
- National Social Security Fund	24,000	19,200
	14,898,461	15,470,733

11. Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2018: 30%). The movement on the deferred tax account is as follows:

	2019 Shs	2018 Shs
At start of year	36,465	(1,334,752)
Charge to profit or loss (Note 9)	663,056	1,371,217
At end of year	699,521	36,465

Deferred tax is attributable to the following items:

	At start of year Shs	Charge/(credit) to profit or loss Shs	At end of year Shs
Deferred tax (assets)/liabilities			
Plant and equipment: accelerated tax depreciation	(114,659)	(17,212)	(131,871)
Other accrued liabilities	(311,977)	(3,789)	(315,766)
Unrealised exchange gain	2,043,145	(293,012)	1,750,133
Tax losses carried forward	(1,580,044)	977,069	(602,975)
Net deferred tax liability	36,465	663,056	699,521

13. Other accrued liabilities

	2019 Shs	2018 Shs
Accrual for outstanding leave days		
At start of year	1,039,922	792,322
Charge to profit or loss (Note 7)	12,629	247,600
At end of year	1,052,551	1,039,922

14. Plant and equipment

	Motor vehicle Shs	Office equipment Shs	Computer equipment Shs	Furniture and fittings Shs	Total Shs
Cost					
At start and end of year	2,425,000	701,459	341,425	2,404,672	5,872,556
Depreciation					
At start of year	1,529,836	186,616	242,381	1,839,687	3,798,520
Charge for the year	223,791	64,355	29,713	141,246	459,105
At end of year	1,753,627	250,971	272,094	1,980,933	4,257,625
Net book value					
As at 31 December 2019	671,373	450,488	69,331	423,739	1,614,931
As at 31 December 2018	895,164	514,843	99,044	564,985	2,074,036

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

	2019 Shs	2018 Shs
ii) Receivable from related parties		
McLeod Russel Middle East Limited	58,720,437	14,035,002
McLeod Russel Uganda Limited	3,433,914	552,980
Gisovu Tea Company Ltd	-	113,274
Total related parties (Note 16)	62,154,351	14,701,256
iii) Key management personnel compensation		
Short term employee benefits	7,217,916	7,267,098
iv) Transactions with related parties arising from sale and purchase of goods.		
Sale of teas to other related party	130,367,698	21,997,695
Commission from sale of teas on behalf of other related parties (Note 5)	3,054,150	11,599,736
Purchase of teas from other related parties	-	2,641,556
v) Transactions with related parties arising from financing		
Interest on borrowing from parent company	7,720,188	9,199,321

No provision has been required in 2019 and 2018 in respect of related party balances.

20. **Contingent liabilities**

There were no contingent liabilities as at year end.

21. **Commitments**

Operating lease commitments - as a lessee

The company leases various properties under a cancellable operating lease agreement.The lease term is for a period of 6 years from 1st June 2018 to 31st May 2024. To terminate this lease the company must give a notice of 3 months. The expenditure to lease this property amounted to Shs 1,164,384 (2018: Shs 1,493,318) and is included under establishment expenses.

22. **Presentation currency**

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

4. FINANCE COSTS

	2019 Shs	2018 Shs
Realised foreign exchange loss	3,385,248	3,389,682
Unrealised foreign exchange gain	(2,412,976)	(6,810,483)
Interst expense: related party loan	7,720,188	9,199,321
Total finance cost	8,692,458	5,778,520