

**MCLEOD RUSSEL AFRICA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024**

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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 2024, 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 company's total turnover decreased from Shs 804,677,159 in 2023 to Shs 743,415,236 in 2024, primarily due to a decline in tea prices and a reduction in the foreign exchange rates of the Kenyan Shilling against the US Dollar. However, profit before tax increased from Shs 25,252,665 in 2023 to Shs 53,234,715 in 2024, mainly driven by foreign exchange gains during the year.

Key performance indicators	2024	2023
Turnover (Shs)	743,415,236	804,677,159
Gross profit (Shs)	72,651,767	87,449,492
Gross profit margin (%)	9.8	10.9
Profit for the year (Shs)	37,520,615	17,106,828
Net assets/(liabilities) (Shs)	15,653,866	(21,866,749)

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.

.....continued on page 3

REPORT OF THE DIRECTORS (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES (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 (2023: 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:

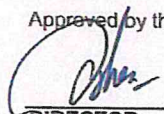
- (a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and
- (b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's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

Approved by the board of directors on 14 May 2025 and signed on its behalf by:



DIRECTOR

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 keeps 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 IFRS for SMEs® Accounting Standard 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 IFRS for SMEs Accounting Standard and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

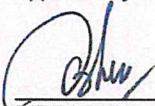
- i) Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii) Selecting and applying appropriate accounting policies;
- iii) Making accounting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

The directors confirm that the financial statements give a true and fair view of the financial position of the company as at 31 December 2024 and of the company's financial performance and cash flows for the year then ended in accordance with the IFRS for SMEs Accounting Standard 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 their responsibilities.

Approved by the board of directors on 14 May 2025 signed on its behalf by:



DIRECTOR



DIRECTOR



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

Report on the Audit of the Financial Statements

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 2024, 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 2024, and of its financial performance and cash flows for the year then ended in accordance with the/ the IFRS for SMEs® Accounting Standard and the requirements of 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 (including International Independence Standards) (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 Accounting Standard, 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.

.....continued on page 6

**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 other 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 Shah", with a horizontal line drawn through it.

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

19 May 2025

0109/2025

STATEMENT OF PROFIT OR LOSS

	Notes	2024 Shs	2023 Shs
Revenue	3	743,415,236	804,677,159
Cost of sales		<u>(670,763,469)</u>	<u>(717,227,667)</u>
Gross profit		72,651,767	87,449,492
Other operating income	4	7,239,312	254,756
Administrative expenses		(29,091,672)	(21,886,108)
Other operating expenses		(2,261,086)	(1,870,643)
Net foreign exchange (loss)/gain		<u>(19,614,997)</u>	<u>21,842,240</u>
Operating profit	5	28,923,324	85,789,737
Finance income/(costs)	7	<u>24,311,391</u>	<u>(60,537,072)</u>
Profit before tax		53,234,715	25,252,665
Tax charge	8	<u>(15,714,101)</u>	<u>(8,145,837)</u>
Profit for the year		<u><u>37,520,615</u></u>	<u><u>17,106,828</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.


PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya 19/2025

McLeod Russel Africa Limited
Annual report and financial statements
For the year ended 31 December 2024

STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Notes	2024 Shs	2023 Shs
EQUITY			
Share capital	9	100,000	100,000
Retained earnings		<u>15,553,866</u>	<u>(21,966,749)</u>
Equity attributable to owners of the company		<u>15,653,866</u>	<u>(21,866,749)</u>
Non-current liabilities			
Borrowings	10	<u>177,025,083</u>	<u>218,300,089</u>
		<u>192,678,949</u>	<u>196,433,340</u>
REPRESENTED BY			
Non-current assets			
Plant and equipment	12	331,613	387,725
Deferred tax	11	<u>11,440,280</u>	<u>16,856,547</u>
		<u>11,771,893</u>	<u>17,244,272</u>
Current assets			
Inventories	13	43,575,570	40,954,525
Trade and other receivables	14	135,211,126	176,429,330
Cash and cash equivalents	15	17,873,824	21,230,564
Tax Recoverable		<u>6,642,922</u>	<u>-</u>
		<u>203,303,442</u>	<u>238,614,419</u>
Current liabilities			
Trade and other payables	16	22,396,386	43,562,386
Tax payable		<u>-</u>	<u>15,862,965</u>
		<u>22,396,386</u>	<u>59,425,351</u>
Net current assets		<u>180,907,056</u>	<u>179,189,068</u>
		<u>192,678,949</u>	<u>196,433,340</u>

The financial statements on pages 8 to 20 were authorised and approved for issue by the Board of Directors on 14 May 2025 and were signed on its behalf by:


Aditya Khaitan
DIRECTOR


Pradip Bhar
DIRECTOR

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

Report of the independent auditor - pages 5 - 7.

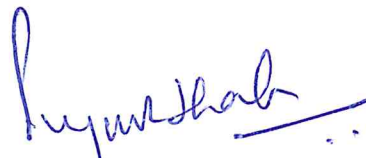
PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya

19/5/2025

	Share capital Shs	Retained earnings Shs	Total Shs
Year ended 31 December 2024			
At start of year	100,000	(21,966,749)	(21,866,749)
Profit for the year	-	37,520,615	37,520,615
At end of year	<u>100,000</u>	<u>15,553,866</u>	<u>15,653,866</u>
Year ended 31 December 2023			
At start of year	100,000	(39,073,577)	(38,973,577)
Profit for the year	-	17,106,828	17,106,828
At end of year	<u>100,000</u>	<u>(21,966,749)</u>	<u>(21,866,749)</u>

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

Report of the independent auditor - pages 5 - 7.


PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya
19/7/2025

	Notes	2024 Shs	2023 Shs
Cash flows from operating activities			
Profit before tax		53,234,715	25,252,665
Adjustments for:			
Depreciation on plant and equipment	12	104,112	210,044
Unrealised foreign exchange (gain)/loss		(35,486,096)	46,442,518
Interest expense (net)	7	12,334,820	13,186,331
Cash flows from operating activities before changes in working capital		30,187,551	85,091,558
Changes in working capital:			
- inventories		(2,621,045)	6,989,344
- trade and other receivables		40,409,479	(76,077,450)
- trade and other payables		(21,551,942)	26,770,772
Cash generated from operations		46,424,043	42,774,224
Interest paid		(12,334,820)	(13,186,331)
Tax paid		(32,803,720)	-
Net cash generated from operating activities		1,285,503	29,587,893
Cash flows from investing activities			
Cash paid for purchase of plant and equipment	12	(48,000)	(57,500)
Net cash used in investing activities		(48,000)	(57,500)
Cash flows from financing activities			
Repayments of borrowings		(4,594,243)	(16,634,871)
Net cash used in financing activities		(4,594,243)	(16,634,871)
(Decrease)/increase in cash and cash equivalents		(3,356,740)	12,895,522
Movement in cash and cash equivalents			
At start of year		21,230,564	8,335,042
(Decrease)/increase		(3,356,740)	12,895,522
At end of year	15	17,873,824	21,230,564

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

Report of the independent auditor - pages 5 - 7.


PKF Kenya LLP
P.O. Box 90553 - 80100
Mombasa - Kenya
19/7/2024

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 IFRS for SMEs Accounting Standard issued by the International Accounting Standards Board (IASB) 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 Accounting Standard 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.

Useful lives, depreciation methods and residual values of plant and equipment

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.

NOTES (CONTINUED)

2. Significant accounting policies (continued)

c) Revenue recognition

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

The company recognises revenue when: the amount of revenue as well as the cost incurred or to be incurred in respect of a transaction can be reliably measured; it is probable that future economic benefits will flow to the entity; and 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)

2. Significant accounting policies (continued)

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.

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.

NOTES (CONTINUED)

2. Significant accounting policies (continued)

j) Taxation (continued)

Deferred tax (continued)

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

Where necessary comparative figures have been adjusted to confirm with presentation in the current year. Specifically net foreign exchange differences on trading activities

3. Revenue	2024 Shs	2023 Shs
Revenue from sale of tea	<u>743,415,236</u>	<u>804,677,159</u>
4. Other operating income		
Gain on blended tea	449,178	254,756
Miscellaneous Income	<u>6,790,134</u>	<u>-</u>
	<u>7,239,312</u>	<u>254,756</u>
5. Operating profit		
The following items have been charged in arriving at the operating profit:		
Depreciation on plant and equipment (Note 12)	104,112	210,044
Audit fees		
- current year	7,343,424	660,000
- underprovision in prior year	30,000	-
Operating lease rentals	1,319,049	1,256,736
Staff costs (Note 6)	<u>14,442,672</u>	<u>11,156,717</u>
6. Staff costs		
Salaries, wages and other staff costs	14,351,824	11,108,397
Post-employment benefits:		
- National Social Security Fund	<u>90,848</u>	<u>48,320</u>
	<u>14,442,672</u>	<u>11,156,717</u>
The average number of persons employed during the year, by category were:	2024 No.	2023 No.
Management and administration	<u>4</u>	<u>4</u>
7. Finance income/(costs)	2024 Shs	2023 Shs
Interest expense:		
- related party loan and balances	13,329,377	15,160,297
Less: interest received	<u>(994,557)</u>	<u>(1,973,966)</u>
Net interest expense	12,334,820	13,186,331
Net foreign exchange (gain)/loss	<u>(36,646,211)</u>	<u>47,350,741</u>
	<u>(24,311,391)</u>	<u>60,537,072</u>

NOTES (CONTINUED)

8. Tax	2024 Shs	2023 Shs
Current tax	10,804,211	15,817,306
Overprovision of current tax in prior years	(506,378)	-
Underprovision of deferred tax in prior years (Note 11)	8,414	-
Deferred tax charge/(credit) (Note 11)	<u>5,407,853</u>	<u>(7,671,469)</u>
Tax charge	<u>15,714,101</u>	<u>8,145,837</u>

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

Profit before tax	<u>53,234,715</u>	<u>25,252,665</u>
Tax calculated at a tax rate of 30% (2023: 30%)	15,970,415	7,575,800
Tax effect of :		
- expenses not deductible for tax purpose	241,650	570,037
Overprovision of current tax in prior years	(506,378)	-
Underprovision of deferred tax in prior years	<u>8,414</u>	<u>-</u>
Tax charge	<u>15,714,101</u>	<u>8,145,837</u>

9. Share capital

Authorised, issued and fully paid:

10,000 (2023: 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>177,025,083</u>	<u>218,300,089</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% (2023: 30%). The movement on the deferred tax account is as follows:

	2024 Shs	2023 Shs
At start of year	(16,856,547)	(9,185,078)
Underprovision in prior years (Note 8)	8,414	-
Charge/(credit) to profit or loss (Note 8)	<u>5,407,853</u>	<u>(7,671,469)</u>
At end of year	<u>(11,440,280)</u>	<u>(16,856,547)</u>

NOTES (CONTINUED)

11. Deferred tax (continued)

Deferred tax is attributed to the following items:

	At start of year Shs	Underprovision in prior year Shs	Origination and reversal of temporary differences Charge to profit or loss Shs	At end of year Shs
Deferred tax assets				
Plant and equipment: accelerated tax depreciation	(232,034)	-	24,605	(207,429)
Provisions	(297,822)	8,414	(438,087)	(727,495)
Unrealised foreign exchange differences	(16,326,691)	-	5,821,335	(10,505,356)
Net deferred tax asset	(16,856,547)	8,414	5,407,853	(11,440,280)

12. Plant and equipment

	Office equipment Shs	Computer equipment Shs	Furniture and fittings Shs	Total Shs
Cost				
At start of year	835,562	484,925	2,404,672	3,725,159
Additions	6,000	42,000	-	48,000
At end of year	841,562	526,925	2,404,672	3,773,159
Accumulated depreciation				
At start of year	476,230	456,532	2,404,672	3,337,434
Charge for the year	56,316	47,796	-	104,112
At end of year	532,546	504,328	2,404,672	3,441,546
Net carrying amount				
As at 31 December 2024	309,016	22,597	-	331,613
As at 31 December 2023	359,332	28,393	-	387,725

13. Inventories

	2024 Shs	2023 Shs
Tea stock	39,516,375	36,187,429
Packaging material	4,059,195	4,767,096
	43,575,570	40,954,525

14. Trade and other receivables	2024 Shs	2023 Shs
Trade receivables	95,960,596	121,985,731
Prepayments and deposits	499,485	511,516
Loan receivable	4,853,186	5,441,135
Other receivables	12,597,435	12,980,068
Receivable from related parties (Note 17 (v))	22,271,061	35,510,880
Less: Impairment allowance - loan receivable	(970,637)	-
	<u>135,211,126</u>	<u>176,429,330</u>

The company recognised an impairment allowance of Shs 970,637 (2023: Shs Nil) against loan receivable due to default by the borrower.

15. Cash and cash equivalents

Cash at bank and in hand	<u>17,873,824</u>	<u>21,230,564</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	2024 Shs	2023 Shs
Trade payables	19,880,845	25,559,319
Accruals	2,515,541	1,942,879
Payable to related party (Note 17 (vi))	-	16,060,188
	<u>22,396,386</u>	<u>43,562,386</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	2024 Shs	2023 Shs
At start of year	218,300,089	189,691,483
Interest	13,329,377	14,689,351
Withholding tax on interest	(2,156,121)	(1,983,871)
Repayments	(14,993,326)	(32,432,921)
Foreign exchange difference	(37,454,936)	48,336,047
At end of year (Note 10)	<u>177,025,083</u>	<u>218,300,089</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.

17. Related party transactions and balances (continued)

	2024 Shs	2023 Shs
ii) Sale of goods and services		
Sale of teas to other related party	103,736,439	111,515,354
Late payment interest on sales to other related party	773,782	1,740,841
iii) Purchase of goods and services		
Purchase of teas from other related party	4,185,570	41,545,082
Interest on borrowing from parent company	13,329,377	15,160,297
iv) Key management personnel compensation		
Short term employee benefits	12,321,700	9,697,982
Post-employment benefits: - National Social Security Fund	49,680	24,160
	12,371,380	9,722,142
v) Outstanding balances arising from sale of goods and services		
Receivable from related parties (Note 14)	22,271,061	35,510,880
No provision has been required in 2024 and 2023 in respect of related party balances.		
vi) Outstanding balances arising from purchase of goods		
Payables to related party (Note 16)	-	16,060,188
The receivables from and payables to related parties are unsecured, interest free and have no specific dates of repayment.		

18. 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 1 June 2018 to 31 May 2024. Which has been extended till 31 May 2025. To terminate this lease the company must give a notice of 3 months. The expenditure to lease this property amounted to Shs 1,319,049 (2023: Shs 1,256,736) and is included under establishment expenses.

19. Presentation currency

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

SCHEDULE OF COST OF SALES AND EXPENDITURE

1. COST OF SALES	2024 Shs	2023 Shs
Opening stock of tea	40,954,525	47,943,869
Purchases of tea	575,482,489	629,414,383
Other direct costs	97,902,025	80,823,940
Closing stock of tea	(43,575,570)	(40,954,525)
Total cost of sales	670,763,469	717,227,667
2. ADMINISTRATIVE EXPENSES		
Employment costs:		
Salaries and wages	13,483,495	10,531,392
Staff medical expenses	469,624	427,741
Increase in staff leave accrual	489,653	28,047
Other staff costs	-	169,537
Total employment costs	14,442,772	11,156,717
Other administration expenses:		
Postage and telephone	1,071,089	630,753
Vehicle running and maintenance	551,305	478,731
Travelling and accommodation	3,883,840	1,807,548
Printing and stationery	508,885	255,595
Audit fees		
- current year	690,000	660,000
- underprovision in prior year	30,000	-
Legal and professional fees	3,505,880	3,492,117
Secretarial fees	54,050	73,750
Bank charges and commissions	1,954,731	2,428,767
Cleaning expenses	1,050	-
Subscriptions	318,949	240,970
Entertainment	110,000	134,544
Miscellaneous	503,951	459,079
Increase in impairment allowance - loan receivable	970,637	-
Fines and penalties	494,533	67,537
Total other administration expenses	14,648,900	10,729,391
Total administrative expenses	29,091,672	21,886,108
3. OTHER OPERATING EXPENSES		
Establishment:		
Rent and rates	1,319,049	1,256,736
Electricity and water	394,566	319,058
Repairs and maintenance	74,895	35,150
Licenses	368,464	49,655
Depreciation on plant and equipment	104,112	210,044
Total other operating expenses	2,261,086	1,870,643