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STANSAND (AFRICA) LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2020

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COMPANY INFORMATION

DIRECTORS	N Khagram R Mwatha Manesh Thakrar * Giles Oakley* (Resigned on 29 November 2019) Sebastian Michaelis* (Appointed on 29 November 2019)
*	British
SECRETARIES	Adili Corporate Services Kenya (Formerly known as Axis Kenya) Certified Public Secretaries (Kenya) P.O. Box 764 - 00606 Nairobi
REGISTERED OFFICE	LR NO 1870/1/176 1st Floor, ALN House, Eldama Ravine Close, Off Eldama Ravine Road Westlands P.O. Box 764 - 00606 Nairobi
PRINCIPAL PLACE OF BUSINESS	3rd Floor, Tea House, Nyerere Avenue Mombasa, Kenya
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) P.O. Box 84712 MOMBASA
BANKERS	HSBC Bank Plc Harry Weston Road Binley, Coventry, CV3 2SH United Kingdom Stanbic Bank Kenya Limited P.O. Box 90131 - 80100 MOMBASA
LEGAL ADVISOR	A.B Patel & Patel Oriental building 1st floor Nkrumah Road P.O. Box 80274 - 80100 MOMBASA

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 March 2020, in accordance with Section 653(1) of the Kenyan Companies Act, 2015, which discloses the state of affairs of Stansand (Africa) Limited (the "Company").

PRINCIPAL ACTIVITIES

The principal activity of the company continues to be buying and exporting of tea.

BUSINESS REVIEW

The Company operates in Mombasa and provides procurement services to companies within the Tata Group involving the purchase of bulk tea.

Key financial performance indicators

The directors consider that it has been a fair year for the Company. The following is an analysis of the company's key performance indicators. The company sales were Shs 1,688 million (2018: Shs 2,320 million) which represents a decline of 27% mainly as a result of decrease in volumes handled combined with lower teas prices compared to prior year. The commission income for the year declined by 36% to Shs 22.5m (2019: Shs 35.1 million). However overheads were maintained with a marginal increase of 2% compared to prior year. Profit for the financial year was Shs 29.1 million compared to 2019 profit of Shs 54.2 million. The shareholders' funds of the company of Shs 253million increased from Shs 225 million last year with the retained profit in the year accounting for the increase.

IMPACT OF COVID 19

Background

Kenya reported its first COVID 19 case on 12th March 2020. The Company has taken a number of measures to monitor and prevent the effects of COVID 19 virus such as safety and health measures for our people like social distancing and working from home. Tea is a key everyday consumable and therefore there has been no significant adverse impact on volumes. The Company continues to procure and supply tea even in the current COVID environment, with demand increasing due to short term stocking up by customers in the markets supplied by the Company.

Going concern

At this stage, the impact on our business is limited. The Company, being part of the TATA Group is endeavouring to procure and supply tea to its customers (within the Group) to ensure that they hold sufficient stocks to meet future demand. If however restrictions were imposed which would impact the supply of tea from the tea growing regions to Mombasa or impact the ability to ship teas from the Port of Mombasa, then this may have an impact on the operations of the Company. The impact on future operations would to a large extent depend on how the pandemic develops and the resultant impact in businesses. Whilst uncertain, we do not believe that the impact of the COVID 19 would have a material adverse effect on our financial position or liquidity.

Financial impact on the financial statements

As explained above, the COVID-19 outbreak and the resulting measures taken by various governments to contain the virus have not yet materially impacted the company's operations and therefore the directors have not adjusted the amounts recognised in the financial statements.

REPORT OF THE DIRECTORS (Continued)

BUSINESS REVIEW (continued)

Principal risks and uncertainties facing company

The Company takes a proactive approach to the management of the various risks that it faces. Of these risks the principal ones that it is exposed to and the Impact of COVID-19 on these risks are:

Market & Price Risk - The company acts as buying/procurement agent for companies within the TATA Group and earns a commission. It is exposed to limited market risk as all of the tea procured is in fulfilment of specific orders received. However, to the extent that a decline in volumes of the buying entities or a decline in tea prices, would impact on the company's ability to recover its fixed costs, then it is exposed to some level of market and price risk.
Impact of COVID 19 – The Company believes that depending on the spread of the virus and the pace of stabilisation in regions where the tea is supplied from, disruptions to the supply chain cannot be ruled out. This is an area which is dynamic and is under constant review and management by the Company on an on-going basis. .

Credit Risk – The company bears no / limited credit risk as it relies on pre-payments from its customers to make purchases.
Impact of COVID 19 – The Company does not foresee any change in its payment terms with its customers and hence does not envisage any material risks arising from the pandemic.

Foreign Exchange Risk - This risk relates to the potential impact on profits that may arise because of changes in foreign exchange rates. The currency exposure risk is managed through holding of bank balances in USD. Whilst there may be a translation risk, the impact would not be material and has no impact on cashflow.
Impact of COVID 19 – The company will continue to manage the currency exposure risk through holding of bank balances in USD and hence does not envisage a material financial impact.

Liquidity Risk – The Company is not normally exposed to any liquidity risk as it receives payment in advance from its customers to make purchases and the company has been in a profitable position.
Impact of COVID 19 – The Company remains in a cash positive position and does not envisage any material liquidity risks arising from the pandemic given its payment terms.

RESULTS AND DIVIDEND

Profit for the year of Shs 29,183,000 (2019: Shs 54,206,000) has been added to retained earnings. During the year no interim dividends were declared (2019: Nil). The directors do not recommend a final dividend for the year (2019: Nil).

DIRECTORS

The current directors who held office during the year and up to the date of approval of these financial statements are disclosed on page 1.

DIRECTORS' STATEMENT AS TO THE INFORMATION GIVEN TO THE AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

REPORT OF THE DIRECTORS (Continued)

AUDITORS

Deloitte & Touche, having confirmed their willingness, continue in office in accordance with Section 719 (2) 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.

BY ORDER OF THE BOARD

N Khagram
Director

2nd JUNE 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position 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 disclose, with reasonable accuracy, the financial position of the company. 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 error.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards 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 necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

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.

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 2nd JUNE 2020 and signed on its behalf by:

N Khagram
Director

R Mwatha
Director

Deloitte.

Deloitte & Touche
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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF STANSAND (AFRICA) LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Stansand (Africa) Limited, set out on pages 9 to 39, which comprise the statement of financial position as at 31 March 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 March 2020 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 (IESBA Code), together with other 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.

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, which comprises the report of directors and the statement of directors' responsibilities as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we 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 the Directors and Those Charged with Governance 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 International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015 and for such internal controls as Directors determine are 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 of 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 with governance are responsible for overseeing the Company's financial reporting process.

Report on the Audit of the Financial Statements (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 ISA's 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 judgement 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 the 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 Directors, 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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF STANSAND (AFRICA) LIMITED (Continued)

Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on pages 2 to 4 is consistent with the financial statements.

Deloitte & Touche

Certified Public Accountants (Kenya)

Mombasa, Kenya

2 June **2020**

CPA Iqbal P Karim – Practising certificate No. 1895
Signing partner responsible for the independent audit.

Statement of profit or loss and other comprehensive income

	Notes	Year ended 31 March 2020 Shs'000	2019 Shs'000
Revenue	4	1,688,102	2,320,250
Cost of sales		(1,612,130)	(2,217,398)
Gross profit		75,972	102,852
Other income	5	29,086	44,895
Administrative expenses		(69,892)	(68,451)
Operating profit		35,166	79,296
Finance costs	6	(1,263)	(2)
Net foreign exchange gains/ (losses)	7	9,514	(345)
Profit before income tax	8	43,417	78,949
Income tax expense	10	(14,234)	(24,743)
Profit for the year		29,183	54,206
Other comprehensive income for the year		-	-
Total comprehensive income for the year		29,183	54,206

Statement of financial position
As at 31 March

	Notes	2020 Shs'000	2019 Shs'000
ASSETS			
Non-current assets			
Deferred income tax	13	1,575	2,493
Vehicles, furniture and equipment	14	3,268	4,829
Right-of-use assets	15	8,248	-
Intangible assets	16	383	567
		13,474	7,889
Current assets			
Inventories	17	134,202	119,410
Current income tax	10	10,182	-
Receivables and prepayments	18	272,617	243,761
Cash and cash equivalents	19	9,276	7,693
		426,277	370,864
TOTAL ASSETS		439,751	378,753
EQUITY AND LIABILITIES			
Equity			
Share capital	12	500	500
Retained earnings		253,304	224,656
Shareholders' funds		253,804	225,156
Liabilities			
Non-current liabilites			
Lease liabilities	20	7,006	-
Current liabilities			
Payables and accrued expenses	21	176,177	151,775
Current income tax	10	-	1,822
Lease liabilities	20	2,764	-
Total current liabilities		178,941	153,597
TOTAL EQUITY AND LIABILITIES		439,751	378,753

The financial statements on pages 9 to 39 were approved for issue by the board of directors on 2nd JUNE 2020 and signed on its behalf by:

N Khagram
Director

R Mwatha
Director

Statement of changes in equity

	Share capital Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 March 2019			
At start of year	500	170,450	170,950
Total comprehensive income for the year	-	54,206	54,206
At end of year	500	224,656	225,156
Year ended 31 March 2020			
At start of year	500	224,656	225,156
IFRS 16 day 1 transition adjustment	-	(1,036)	(1,036)
Deferred tax on IFRS 16 day 1 transition adjustment (Note 13)	-	311	311
Reversal of rent provision	-	272	272
Deferred tax on reversal of rent provision (Note 13)	-	(82)	(82)
As at 1 April 2019 - restated	500	224,121	224,621
Total comprehensive income for the year	-	29,183	29,183
At end of year	500	253,304	253,804

Transition adjustment is related to IFRS 16 which requires the company to recognise the right of use asset and lease liability as at 1 April 2019. Deferred tax has also been recognised on the net adjustment as at 1 April 2019

Statement of cash flows

	Notes	2020 Shs'000	2019 Shs'000
Cash flows from operating activities			
Net cash generated from operations	24	20,663	14,056
Interest received	5	9,523	8,656
Interest paid	6	(7)	(2)
Income tax paid	10	(25,091)	(23,523)
Net cash generated from /(used in) operating activities		5,088	(813)
Cash flows from investing activities			
Purchase of vehicles, furniture and equipment	14	(8)	(307)
Purchase of software	16	-	(362)
Proceeds from disposal of vehicles, furniture and equipment	5	23	73
Net cash generated from / (used in) investing activities		15	(596)
Cashflow from financing activities			
Payment of lease liability	20	(3,520)	-
Net cash used in financing activities		(3,520)	-
Net increase /(decrease) in cash and cash equivalents		1,583	(1,409)
Movement in cash and cash equivalents			
At start of year		7,693	9,102
Increase / (decrease)		1,583	(1,409)
Cash and cash equivalents at end of year	19	9,276	7,693

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

For the Kenyan Companies Act, 2015 reporting purposes, in these financial statements the balance sheet is equivalent to the statement of financial position and the profit and loss account is included in the statement of profit or loss and other comprehensive income.

Application of new and revised International Financial Reporting Standards (IFRSs)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 March 2020

Impact of initial application of IFRS 16 Leases

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 April 2019.

The Company has applied IFRS 16 using the cumulative catch-up transition method, without restating the comparative information. The Company has recognized lease liabilities at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lease liabilities have been measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Company has recognised a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The Company has, on a lease-by-lease basis, measured the right-of-use asset at its carrying amount as if the Standard had been applied since the commencement date, but discounted using the Company's incremental borrowing rate at the date of initial application.

(a) Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Company has carried out a review of all the lease contracts. The review has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 March 2020 (continued)

Impact of initial application of IFRS 16 Leases (Continued)

b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

a) Recognises right-of-use asset and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;

b) Recognises depreciation of right-of-use asset and interest on lease liabilities in profit or loss;

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use asset and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use asset is tested for impairment in accordance with IAS 36.

(ii) Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Company's financial statements.

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

The Company is not a lessor in any lease arrangement therefore there is no impact on lessor accounting.

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 March 2020 (Continued)

Impact of initial application of IFRS 16 Leases (continued)

(d) Financial impact of the initial application of IFRS 16

Impact on profit or loss	**2020 Shs'000**
Increase in depreciation of right-of-use assets	2,750
Increase in finance cost	1,256
Decrease in rent expense	(3,520)
Decrease in profit for the year	486

Impact on assets, liabilities and equity as at 1 April 2019

	As previously reported Shs'000	IFRS 16 adjustments Shs'000	After IFRS 16 adjustments Shs'000
Right-of-use assets	-	10,998	10,998
Lease liabilities	-	(12,034)	(12,034)
Retained earnings	-	(1,036)	(1,036)

For tax purposes, the depreciation expense and finance cost in respect of the right-of-use asset and lease liabilities respectively have not been treated as tax allowable deductions. The application of IFRS 16 has an impact on the statement of cash flows of the Company. Under IFRS 16, lessees must present cash payments for the principal portion for a lease liability, as part of financing activities. Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by Shs 3,520,000 (2019: Shs Nil), being the lease payments, and net cash used in financing activities has increased by Shs 1,256,000 (2019: Shs Nil).

In the current year, the Company has applied a number of other amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 March 2020 (continued)

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IAS 12 Income Taxes, IAS 23 Borrowing costs, IFRS 11 Joint Arrangements

The Annual Improvements include amendments to three Standards and had no impact on the Company's financial statements:

IAS 12 Income Taxes

The amendments clarify that the Company should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Company originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Company does not remeasure its PHI in the joint operation.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Company to:

- determine whether uncertain tax positions are assessed separately or as a Company; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Company should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the Company should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(ii) New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not adopted the following new and revised IFRS Standards that have been issued but are not yet effective:

New and Amendments to standards	*Effective for annual periods beginning on or after*
Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an investor and its Associate or Joint Venture*	Yet to be set, however earlier application permitted
Amendments to IFRS 3 *Definition of a business*	1 January 2020, with earlier application permitted
Amendments to IAS 1 and IAS 8- *Definition of material*	1 January 2020, with earlier application permitted
Conceptual Framework: *Amendments to References to the Conceptual Framework in IFRS standards*	1 January 2020, with earlier application permitted

(iii) Impact of new and amended standards and interpretations effective for future annual periods

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The Directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(iii) Impact of new and amended standards and interpretations effective for future annual periods (Continued)

Amendments to IFRS 3 Definition of a business (Continued)

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or company of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The Directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.
The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

The Directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised *Conceptual Framework*, which became effective upon publication on 29 March 2018, the IASB has also issued *Amendments to References to the* Conceptual Framework in *IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC *Framework* adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

The Directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(iv) Early adoption of standards

The company did not early-adopt any new or amended standards in year ended 31 March 2020.

Basis of preparation

The financial statements are prepared under the historical cost basis of accounting. The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous year and are set out below

Revenue recognition

Revenue represents the net invoiced value of goods and services rendered and is recognized upon transfer of goods to a customer or performance of services. Revenue is stated net of Value Added Tax (VAT) and discounts where applicable.

Revenue is measured based on the consideration to which the company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The company recognises revenue when it transfers control of goods or a service to a customer.

Revenue is recognised as follows:

i. Sale of bulk tea
The company recognizes revenue when it satisfies a performance obligation by transferring promised goods to a customer (which is when the customer obtains control of the goods). The amount of revenue recognized is the amount allocated to the satisfied performance obligation which is when tea is dispatched on freight on board (FOB) terms i.e. a point in time when tea is placed on the vessel.

ii. Commission income
The company earns commission from acting as an agent between a customer and a producer. The service the company provides the customer is to source, negotiate, secure and manage the approval and logistics processes for purchase of African teas. The company recognises revenue when it satisfies a performance obligation, which is when the producer has transferred the promised goods to the customer (which is when the customer obtains control of the goods).The amount of revenue recognised is the amount allocated to the satisfied performance obligation which is when tea is placed on vessel by the producer i.e. at a point in time.

iii. The Company earns interest income from funds loaned to its related parties in the group, as part of cash pooling activity.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Kenya Shillings which is the Company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the entity using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to advances and cash and cash equivalents are presented in the statement of profit or loss and other comprehensive income as a separate line. All other foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income within 'other income'.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (Continued)

Vehicle, furniture and equipment

All categories of vehicle, furniture and equipment are initially recorded at cost. Vehicles, furniture and equipment are subsequently stated at historical cost less accumulated depreciation and any accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss account during the financial period in which they are incurred.

Depreciation on the assets is calculated using the straight line method to allocate their cost over their estimated useful lives, as follows:

Furniture and fittings	4 - 10 years
Computers and equipment	3 - 5 years
Motor vehicles	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Vehicles, furniture and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of vehicles, plant and equipment are determined by comparing the proceeds with the carrying amounts and are included in profit or loss.

Intangible assets

Computer software costs are recognised as intangible assets and are stated at cost less accumulated armortisation and any accumulated impairment losses. The costs are amortised on the straight line basis over the expected useful lives not exceeding a period of 4 years.

Accounting for leases

The Company assesses whether a contract is or contains a lease at inception of the contract. The Company recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprises of fixed lease payments (including the substance fixed payments), less any lease incentives.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Accounting for leases (continued)

The Company re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in floating interest rate, in which case a revised discount rate is used).

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment loses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the statement of the profit or loss.

Impairment

At the end of each reporting period, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of tea comprises the purchase cost and brokerage and where applicable bulking costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of selling expenses.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are a classified as current assets. If not, they are presented as non-current assets.

Impairment of financial assets

The company measures loss allowance equal to lifetime expected credit losses for trade receivables held at amortised cost as these receivables do not contain a significant financing component, since such receivables are normally due for settlement within 30 days from invoice date.

Cash flows relating to short-term receivables (0-12 months) generally are not discounted, unless the effect of doing so would be material. The carrying amount of the asset should be reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss should be included in net profit and loss for the period.

As trade receivables are generally due within 30 days from invoice date, existing provision matrices/methodologies incorporating both historical and forward looking information may be used to determine the lifetime expected credit losses and therefore measuring the provision for doubtful debts for trade receivables is not expected to change under IFRS 9.

(i) Significant increase in credit risk

At each reporting date, the company measures the loss allowance for a trade receivable measured at amortized cost at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

This assessment is made considering all reasonable and supportable information, including that which is forward looking. Indicators of significant increase in credit risk could include (but not limited to) any of the following:

- significant financial difficulty
- an actual breach of contract, such as a default in interest or principal payments
- a high probability of bankruptcy or other financial reorganization
- the disappearance of an active market due to financial difficulties

If there is no significant increase in expected losses, then a loss allowance for 12 months must be recognized.

(ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the company considers that default has occurred when a financial asset is more than 30 days past due unless the company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Company write-offs debt only when there objective evidence that the debt will not be recovered and after it has exhausted its collection avenues.

(iii) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Trade receivables (Continued)

(iii) Measurement and recognition of expected credit losses (Continued)

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with corresponding adjustment to their carrying amount through a loss allowance account.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. An increase in provision due to passage of time is recognised as interest expense.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

Share capital

Ordinary shares are classified as 'share capital' in equity.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less held with banks

Employee benefits

Retirement benefit obligations

The Company operates a defined contribution retirement benefit scheme for its employees. The Company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Retirement benefit obligations (Continued)

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Company and employees.

The Company's contributions to the defined contribution schemes are recognised as an employee benefit expense when they fall due. The Company has no further payment obligations once the contributions have been paid.

Income tax

(i) Current income tax

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

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The key areas of judgment in applying the entities accounting policies and sources of estimation uncertainty are dealt with below:

(a) Critical judgements in applying accounting policies

There are no critical judgments, apart from those involving estimations (see b below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

(b) Key sources of estimation uncertainty

Impairment losses

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs. Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss, other than that arising from goodwill, is recognised as income immediately.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated.

Motor vehicles, equipment and intangible assets

Critical estimates are made by the directors in determining depreciation rates for motor vehicles, equipment and intangible assets.

Lease liability

In order to make a judgement to determine the term of the lease and the corresponding lease liability, the directors consider any options regarding extension or termination of the lease contract which may be available and whether it is probable that such options will be exercised.

Unless there is an implicit interest rate contained in the lease contract, the discount rate used to calculate the net present value of the lease liability is the company's incremental borrowing rate. This rate is estimated by the directors to be the rate which would be paid by the company to purchase a similar asset.

3 Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks: Market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the Company does not hedge any risks.

Market risk

(i) Foreign exchange risk

The Company purchases and exports tea and is exposed to foreign exchange risk arising from currency exposures with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

3 Financial risk management objectives and policies (Continued)

Market risk (continued)

(i) Foreign exchange risk (continued)

Currency exposure arising from liabilities denominated in foreign currencies is managed primarily through the holding of bank balances in the relevant foreign currencies.

At 31 March 2020, if the Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, post tax profit for the year would have been Shs 3,109,000 (2019: post tax profit Shs 3,139,000) higher/ lower, mainly as a result of US dollar denominated trade receivables, payables and bank balances.

(ii) Price risk

The Company does not hold any financial instruments subject to price risk.

(iii) Cash flow and fair value interest rate risk

As at 31 March 2020, the Company did not have interest bearing financial liabilities (2019: Nil).

Credit risk

Credit risk is managed by the Finance Department. Credit risk arises from cash at bank and short term deposits with banks, as well as trade and other receivables. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors.

No collateral is held for any of the below assets.

The sale of tea is made to related companies. For sale of goods payment is received in advance. Excess funds are loaned back to the related company and interest income earned from the loan. For services rendered where commission is earned, the payment is within 30 days of invoice.

Included in other receivables are amounts which are past due at the reporting date and for which no provision for impairment has been made as there has been no change in the credit quality and past experience indicate that payment will be received.

The company's current credit risk grading framework comprises the following categories:

Category	**Description**	**Basis for recognizing expected credit losses**
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL (not credit impaired)
In default	Amount is >60 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL (credit impaired)
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the company has no realistic prospect of recovery	Amount is written off

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Financial risk management objectives and policies (Continued)

Credit risk (continued)

The tables below detail the credit quality of the Company's financial assets as well as the Company's maximum exposure to credit risk by credit risk rating grade:

Financial asset **2020**	**Internal/ external rating**	**12-month lifetime ECL**	**Gross carrying amount Sh'000**	**Loss allowance Sh'000**	**Net carrying amount Sh'000**
Bank balances	Investment grade	12 months ECL	9,256	-	9,256
Other receivables	Performing	12 months ECL	76	-	76
Other receivables	Doubtful	Lifetime ECL (not credit impaired)	89	-	89
Due from related companies	Performing	12 months ECL	230,768	-	230,768
			240,189	-	240,189

Financial asset **2019**	**Internal/ external rating**	**12-month lifetime ECL**	**Gross carrying amount Sh'000**	**Loss allowance Sh'000**	**Net carrying amount Sh'000**
Bank balances	Investment grade	12 months ECL	7,673	-	7,673
Other receivables	Doubtful	Lifetime ECL (not credit impaired)	89	-	89
Due from related companies	Performing	12 months ECL	212,691	-	212,691
			220,453	-	220,453

For other receivables and due from related parties balance, the company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL (which in the case of the Company is the same as the 12-month ECL). The loss allowance is determined individually on specific customer balances.

The simplified approach is used for all trade other receivables and related parties balances given that they are without a financing component. Because the simplified approach is used, an assessment as to whether there has been a significant increase in credit risk for those assets has not been performed.

The Cash and Cash equivalents are carried at gross amount – amortized cost. The loss allowance on cash and cash equivalents, if recognized, would pass through the Profit and Loss account. The current liquid assets have been recognized as the principal amount receivable from the Banks excluding any interest. Bank balances are not restricted and include deposits held with banks that have high credit ratings. Bank balances are thus considered investment grade.

3 Financial risk management objectives and policies (Continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquid risk management includes maintaining sufficient cash balances and availability of funding from an adequate amount of committed credit facilities. The Finance Department monitors liquidity on an ongoing basis.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year
	Shs'000
At 31 March 2020:	
Payables and accrued expenses	176,177
At 31 March 2019:	
Payables and accrued expenses	151,775

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders.

4 Revenue

	2020 Shs'000	2019 Shs'000
Analysis of sales by category:		
Tea sales – exports	1,688,102	2,317,754
Tea sales – local	-	2,496
	1,688,102	2,320,250

5 Other income

Commission income	22,477	35,111
Other non-operating income	-	56
Net foreign exchange loss other than on advances to related company and cash and cash equivalents	(4,677)	(747)
Interest income on advances to related party	9,496	8,655
Interest income on call deposit	27	1
Scrap sales	1,740	1,746
Profit on disposal of vehicles, furniture and equipment	23	73
	29,086	44,895

6 Finance costs

	2020 Shs'000	2019 Shs'000
Interest expense	(7)	(2)
Interest on lease liabilities (Note 20)	(1,256)	-
	(1,263)	(2)

7 Net foreign exchange gains/ (losses)

	2020	2019
Net foreign exchange gains / (losses) on amounts advanced to related company and cash and cash equivalents	9,514	(345)

8 Profit before income tax

The following items have been charged in arriving at the profit before income tax:

	2020 Shs'000	2019 Shs'000
Depreciation of vehicles, furniture and equipment (Note 14)	1,569	1,639
Depreciation of right of use assets (Note 15)	2,750	-
Amortization of intangible assets (Note 16)	184	269
Interest on lease liabilities (Note 20)	1,256	-
Operating lease rentals expensed	1,404	4,554
Repairs and maintenance expenditure	169	222
Employee benefits expense net of directors' emoluments and fees	27,468	25,940
Auditors' remuneration	2,169	1,972
Directors' emoluments and fees	24,905	22.851

9 Employee benefits expense

The following items are included within employee benefits expense:

	2020 Shs'000	2019 Shs'000
Salaries and wages	46,671	42,995
Other benefits	1,764	2,082
Retirement benefits costs:		
- Defined contribution scheme	3,902	3,681
- National Social Security Fund	36	33
	52,373	48,791

Summary of permanent employees:

	2020	2019
Directors	2	2
Management	5	5
Support	6	6
Total	13	13

10 Income tax expense

	2020 Shs'000	2019 Shs'000
Current income tax	13,084	25,591
Under/(over) provision of current tax in prior period	3	(97)
Deferred income tax charge /(credit) (Note 13)	1,147	(751)
Income tax expense	14,234	24,743

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

	2020 Shs'000	2019 Shs'000
Profit before income tax	43,417	78,949
Tax calculated at the statutory income tax rate of 30% (2018 – 30%)	13,025	23,685
Tax effect of:		
- Expenses not deductible for tax purposes	1,209	1,155
- Income not subject to tax	-	-
- Under /(over) provision of current tax in prior period	3	(97)
- Over provision of deferred tax in prior period	(3)	-
Income tax expense	14,234	24,743

Tax movement

	2020	2019
Tax payable / (recoverable) at beginning of the year	1,822	(149)
Tax charge recognised in profit or loss	13,084	25,591
Under/(over) provision of current tax in prior period	3	(97)
Tax paid	(25,091)	(23,523)
Tax (recoverable)/payable at the end of the year	(10,182)	1,822

11 Dividends per share

During the year no interim dividend was declared (2019: Nil). No final dividends are proposed for the year ended 31 March 2020 (2019: Nil).

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholder.

12 Share capital

	Number of shares (Thousands)	Share Capital Shs'000
Balance at 1 April 2018, 31 March 2019 and 31 March 2020	25	500

The total authorised number of ordinary shares is 30,000 with a par value of Shs 20 per share. All issued shares are fully paid.

13 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2019: 30%). The movement on the deferred income tax account is as follows:

	2020 Shs'000	2019 Shs'000
At start of year	(2,493)	(1,742)
Charge / (credit) to profit or loss (Note 10)	1,147	(751)
IFRS16 day 1 transition adjustment	(311)	-
Reversal of rent provision	82	-
At end of year	(1,575)	(2,493)

Deferred income tax assets and liabilities and deferred income tax (credit) / charge in the profit or loss are attributable to the following items:

Year ended 31 March 2020 Deferred income tax (assets)/ liabilities	01.04.2019 Shs'000	(Credit)/ charge to profit or loss Shs'000	Charge to retained earnings Shs '000	31.03.2020 Shs'000
Unrealised exchange gains and losses	(533)	1,524	-	991
Vehicles, furniture, equipment and intangible assets	(569)	(170)	-	(739)
Other general provisions	(1,391)	(62)	82	(1,371)
Right of use assets	-	(824)	3,299	2,475
Lease liabilities	-	679	(3,610)	(2,931)
Net deferred income tax asset	(2,493)	1,147	(229)	(1,575)

Year ended 31 March 2019 Deferred income tax (assets)/liabilities	01.04.2018 Shs'000	(Credit) / charge to profit or loss Shs'000	31.03.2019 Shs'000
Unrealised exchange gains and losses	(95)	(438)	(533)
Vehicles, furniture, equipment and intangible assets	(504)	(65)	(569)
Other general provisions	(1,143)	(248)	(1,391)
Net deferred income tax asset	(1,742)	(751)	(2,493)

14 Vehicles, furniture and equipment

	Furniture & fittings	Computers & equipment	Motor vehicles	Total
	Shs'000	Shs'000	Shs'000	Shs'000
COST				
At 1 April 2018	10,269	7,730	140	18,139
Additions	243	64	-	307
Disposals	(294)	-	-	(294)
Reclassification	201	(201)	-	-
At 31 March 2019	10,419	7,593	140	18,152
At 1 April 2019	10,419	7,593	140	18,152
Additions	-	8	-	8
Disposals	(269)	(323)	-	(592)
At 31 March 2020	10,150	7,278	140	17,568
DEPRECIATION				
At 1 April 2018	6,039	5,808	131	11,978
Charge for the year	929	701	9	1,639
Eliminated on disposals	(294)	-	-	(294)
Reclassification	201	(201)	-	-
At 31 March 2019	6,875	6,308	140	13,323
At 1 April 2019	6,875	6,308	140	13,323
Charge for the year	949	620	-	1,569
Eliminated on disposals	(269)	(323)	-	(592)
At 31 March 2020	7,555	6,605	140	14,300
NET BOOK VALUE				
At 31 March 2020	2,595	673	-	3,268
At 31 March 2019	3,544	1,285	-	4,829

At 31 March 2020 vehicle, furniture and equipment with a cost of Shs 5,657,000 (2019 – Shs 5,371,000) had been fully depreciated. The normal annual depreciation charge in respect of these assets would have been Shs 1,393,000 (2018 – Shs 1,315,000)

Based on an impairment review performed by the directors as at 31 March 2020, there is no impairment of vehicles, furniture and equipment (2019 - none).

15 Right of use assets

The Company has leased office space and carpark for its use. Information about the leases in which the Company is a lessee is presented below:

	2020	2019
	Shs'000	Shs'000
COST		
At start of the year	-	-
Recognised on adoption of IFRS 16	14,435	-
At end of year	14,435	-
DEPRECIATION		
At start of year	-	-
Accumulated depreciation recognised on adoption of IFRS 16	(3,437)	-
Charge for the year	(2,750)	-
At end of year	(6,187)	-
NET BOOK VALUE		
At 31 March 2020	8,248	-
At 31 March 2019	-	-
Amounts recognised in profit and loss		
Depreciation expense of right of use assets	2,750	-
Interest expense on lease liabilities	1,256	-
	4,006	-

The company adopted IFRS 16 with effect from 1 April 2019 using the modified retrospective approach with Day -one Adjustment to retained earnings. Thus, cost of the right of use assets at that date represents the present value of the lease payments discounted at the incremental borrowing rate from inception to the end date of the lease less accumulated depreciation as at reporting date.

IFRS 16 requires that right of use assets be tested for impairment in accordance with IAS 36. An impairment review performed by the directors at 31 March 2020 did not identify any impairment in the carrying value of the right of use assets.

16 Intangible assets

	Computer Software
	Shs'000
COST	
At 1 April 2018	11,553
Additions	362
At 31 March 2019	11,915
At 1 April 2019	11,915
Additions	-
At 31 March 2020	11,915
DEPRECIATION	
At 1 April 2018	11,079
Charge for the year	269
At 31 March 2019	11,348
At 1 April 2019	11,348
Charge for the year	184
At 31 March 2020	11,532
NET BOOK VALUE	
At 31 March 2020	383
At 31 March 2019	567

At 31 March 2020 intangible assets with a cost of Shs 11,179,000 (2019 – Shs 10,138,000) had been fully depreciated. The normal annual depreciation charge in respect of these assets would have been Shs 2,867,000 (2019 – Shs 2,607,000)

17 Inventories

	2020 Shs'000	2019 Shs'000
Teas purchased for resale (at cost)	134,202	119,410

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to Shs 1,520,387,000 (2019: Shs 2,112,554,000).

18 Receivables and prepayments

	2020 Shs'000	2019 Shs'000
Trade receivables	-	-
Prepayments	4,456	1,741
Deposits	848	848
Advances to related parties (Note 25(iv))	230,768	212,691
VAT receivable	36,380	28,392
Other receivables	165	89
	272,617	243,761

The carrying amounts of the Company's trade and other receivables approximate to their fair values and are denominated in the following currencies:

	2020 Shs'000	2019 Shs'000
Kenya Shillings	41,849	31,070
US Dollar	230,768	212,691
	272,617	243,761

19 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and at bank. The year end cash and cash equivalents comprise of the following:

	2020 Shs'000	2019 Shs'000
Cash at bank	9,256	7,673
Cash in hand	20	20
	9,276	7,693

The carrying amounts of the Company's cash and cash equivalents approximate to their fair values and are denominated in the following currencies:

	2020 Shs'000	2019 Shs'000
Kenya Shillings	581	1,830
US Dollar	8,695	5,863
	9,276	7,693

20 Lease liabilities

	2020 Shs'000	2019 Shs'000
Undiscounted future minimum lease payment under operating lease at 1 April	15,011	-
Impact of discounting	(2,977)	-
At 1 April 2019	12,034	-

The movement in the lease liabilities as follows:

	2020 Shs'000	2019 Shs'000
Balance at 1 April 2019	12,034	-
Interest on lease liabilities	1,256	-
Payment of lease liabilities	(3,520)	-
Balance at 31 March 2020	9,770	-
Amounts due for settlement within 12 months	2,764	-
Amounts due for settlement after 12 months	7,006	-
	9,770	-

Maturity Analysis

Undiscounted future minimum lease payment under operating lease

	2020 Shs'000	2019 Shs'000
Year 1	3,714	-
Year 2	3,784	-
Year 3	3,993	-
Year 4	-	-
Year 5	-	-
Onwards	-	-
	11,491	-

The Company does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the company's finance function. All lease obligations are denominated in Kenya Shillings

The effective interest rate on the lease liability at the end of the year was 12.7%.

21 Payables and accrued expenses

	2020 Shs'000	2019 Shs'000
Trade payables	45,113	79,444
Payables to related parties (Note 25 (v))	107,215	54,244
Accrued expenses	23,537	17,787
Other payables	312	300
	176,177	151,775

21 Payables and accrued expenses (continued)

The carrying amounts of the above payables and accrued expenses approximate to their fair values and are denominated in the following currencies:

	2020 Shs'000	2019 Shs'000
Kenya Shillings	25,750	22,913
US Dollar	150,427	128,862
	176,177	151,775

22 Contingent liabilities

There were no contingent liabilities as at 31 March 2020 and 31 March 2019.

23 Commitments

i) Capital commitments

The capital commitments as at 31 March 2020 amounted to Shs. Nil (2019: Nil)

ii) Operating lease commitments

At the end of the reporting period, the company had outstanding commitments under an operating lease non-cancellable by either party for rental of the company's office which fall due for payment as follows:

	2020 Shs'000	2019 Shs'000
Not later than 1 year	-	3,376
Later than 1 year and not later than 5 years	-	11,023
	-	14,399

24 Note to the statement of cashflows

Reconciliation of profit before income tax to net cash generated from operations:

	2020 Shs'000	2019 Shs'000
Profit before income tax	43,417	78,949
Adjustments for:		
Interest income (Note 5)	(9,523)	(8,656)
Finance costs (Note 6)	1,263	2
Reversal on rent provision	272	-
Depreciation of vehicles, furniture and equipment (Note 14)	1,569	1,639
Depreciation of right of use assets (Note 15)	2,750	-
Amortization of intangible assets (Note 16)	184	269
Gain on disposal of vehicles, furniture and equipment (Note 5)	(23)	(73)
Changes in working capital		
– receivables and prepayments	(28,856)	(57,260)
– inventories	(14,792)	(22,335)
– payables and accrued expenses	24,402	21,521
Net cash generated from operations	20,663	14,056

25 Related party transactions

The Company is controlled by Tata Consumer Products Overseas Holdings Limited (Formerly known as Tata Global Beverages Overseas Holdings Limited) incorporated in the United Kingdom. The ultimate parent of the Group is Tata Consumer Products Limited (Formerly known as Tata Global Beverages Limited) incorporated in India. There are other companies that are related to Stansand (Africa) Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

i) Sale of goods and services

	2020 Shs'000	2019 Shs'000
Tata Global Beverages (GB) Limited	1,428,779	2,106,829
Other related parties	281.800	246,036
	1,710,579	2,352,865

ii) Interest earned on advances to related parties

Tata Global Beverages Services Limited	-	7,080
Tata Global Beverages (GB) Limited	9,496	1,575
	9,496	8,655

iii) Directors and key management compensation

Salaries and other short-term employment benefits	37,979	35,080

The remuneration for directors and key management is determined by the Group Human Resources department having regard to the performance of individuals and market trends.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25 Related Party Transactions (continued)

iv) Outstanding receivable balances from related parties

	2020 Shs'000	2019 Shs'000
Advances to related company		
Tata Global Beverages (GB) Limited	230,768	212,691
	230,768	212,691

These relate to amounts advanced to group companies as part of cash pooling exercise and are repayable on demand.

The effective rate of interest during the year was 4.2% p.a. (2019 – 4.4% p.a) This is the applicable ICELIBOR Rate plus margin. 'ICELIBOR' shall mean the London Interbank Offered Rate determined by the Intercontinental Exchange.

Margin means the margin over ICELIBOR as agreed between the parties from time to time in accordance with market rates. The margin is 2% over ICELIBOR.

v) Outstanding payable balances to related parties

	2020 Shs'000	2019 Shs'000
Tata Global Beverages (GB) Limited	93,840	24,475
Tata Consumer Products Limited (Formerly known as Tata Global Beverages Limited	6,827	11,629
Southern Tea Company LLC	6,548	18,140
	107,215	54,244

No provisions for impairment losses were held in 2020 (2019: Nil) in respect of related party receivables.

26 Events after reporting date

As a result of the COVID-19 pandemic, subsequent to financial year end, Kenya has imposed a ban on movement in and out of certain counties/areas of the country. In addition, the country has imposed a nationwide curfew from 7 pm to 5 am and has closed borders to foreigners amongst other measures. However, this does not impact the transport/transfer of essential goods and services which the company's business activities fall under.

Financial impact on the financial statements

In accordance with IAS 10 on Events after the Reporting Period, these are considered non-adjusting events and the Directors have therefore not adjusted amounts recognized in the financial statements to reflect the impact of post balance sheet events arising from Covid 19 pandemic.

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