PKF

SOLLATEK ELECTRONICS (KENYA) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS	:	Christopher R. L. Soper
	:	Mohamed S. N. Abdulla
	:	Ms. Natalie Balck McCarthy (Apointed on 4 January 2021)
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	:	Plot No. 6244/IMN
	:	Sollatek Building
	:	Main Mombasa - Malindi Road
	:	P. O. Box 34246 - 80118
	:	Mombasa
	:	Telephone: (020) - 3501671/2
	:	Fax: (020) - 3501673
	:	E-mail: sales@sollatek.co.ke
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	:	Prime Bank Limited
	:	Mombasa

REPORT OF THE DIRECTORS

The directors submit their report together with the financial statements for the year ended 31 December 2021, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activities of the company are assembly, sale and service of electrical items.

BUSINESS REVIEW

The total turnover of the company Increased from Shs 607,532,505 in 2020 to Shs 745,715,356 in 2021. This was mainly attributed to increase in demand of the solar products during the year. The profit before tax increased from Shs 169,345,144 in 2020 to Shs 178,269,039 in 2021 reflecting effects of the above.

As at 31 December 2021, the net asset position of the company was Shs 573,391,459 compared to Shs 442,583,530 as at 31 December 2020.

Key performance indicators	**2021**	**2020**
Turnover (Shs)	745,715,356	607,532,505
Gross profit (Shs)	282,393,984	276,390,543
Gross profit margin	38%	45%
(Loss)/profit for the year (Shs)	130,807,929	126,442,656
Net assets (Shs)	573,391,459	442,583,530

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 and other factors such as the impact of the coronavirus (Covid-19) outbreak.

At company level, we continue following the developments, particularly the impact on business, as most of our products are sourced from Sollatek UK which is still suffering the impact of disruption in supply chain of raw materials making it harder to meet the demand of customers. However as a company in current year we have diversified and are also sourcing the solar products from other countries like Greece and China to meet the shortfall we are facing from Sollatek UK. This strategy has helped bringing a good turnaround for the company so far. These financial statements have not been adjusted for any potential further impact of the Covid-19 pandemic.

Credit risk

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

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REPORT OF THE DIRECTORS (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Cash flow and foreign currency risk

The company has transactions in both Kenya Shillings and foreign currency, where the company is exposed to currency risk. The risk is managed through appropriate operational offset of open receivable and payable foreign currency positions.

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 appropriate financing arrangements.

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2020: 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 appointment and the related fees. The auditor's remuneration has been charged to profit or loss in the year.

BY ORDER OF THE BOARD

DIRECTOR
MOMBASA

03/06/**2022**

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 International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act, 2015. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and in 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; and
iii. Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities 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.

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 03/06/ 2022 signed on its behalf by:

DIRECTOR

DIRECTOR

PKF

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SOLLATEK ELECTRONICS (KENYA) LIMITED

Opinion
We have audited the financial statements of Sollatek Electronics (Kenya) Limited, set out on pages 7 to 21 which comprise the statement of financial position as at 31 December 2021, 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 2021, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the Kenyan Companies Act, 2015.

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

Other Information
The directors are responsible for the other information. The other information comprises the directors' report and the schedule of 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 the International Financial Reporting Standard for Small and Medium-sized Entities, and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance 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.

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REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SOLLATEK ELECTRONICS (KENYA) (CONTINUED)

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

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

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

Report on Other matters prescribed by the Kenyan Companies Act, 2015
In our opinion the information given in the report of the directors on pages 2 and 3 are 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 P/No. 1521.

Piyushshah

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

7-6- **2022**

0118/2022

STATEMENT OF PROFIT OR LOSS

	Notes	2021 Shs	2020 Shs
Revenue	3	745,715,356	607,532,505
Cost of sales		(463,321,373)	(331,141,962)
Gross profit		282,393,984	276,390,543
Other operating income	4	20,876,216	-
Administrative expenses		(94,151,925)	(79,917,350)
Other operating expenses		(10,230,403)	(6,368,057)
Operating profit	5	198,887,872	190,105,136
Finance costs	7	(20,618,833)	(20,759,992)
Profit before tax		178,269,039	169,345,144
Tax charge	8	(47,461,110)	(42,902,488)
Profit for the year		130,807,929	126,442,656

The notes on pages 11 to 21 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 6.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2021 Shs	2020 Shs
EQUITY			
Share capital	9	50,000,000	50,000,000
Retained earnings		523,391,459	392,583,530
Equity attributable to owners of the company		573,391,459	442,583,530
Non-current liability			
Borrowings	10	43,573,039	43,573,039
		616,964,498	486,156,569
REPRESENTED BY			
Non-current assets			
Plant and equipment	13	87,006,760	81,580,594
Intangible assets	14	1,591,008	438,228
Deferred tax	11	1,746,694	2,072,608
		90,344,462	84,091,430
Current assets			
Inventories	15	547,366,400	481,884,629
Trade and other receivables	16	367,579,099	226,633,333
Cash and cash equivalents	17	10,237,292	145,400
Tax recoverable		3,081,749	8,484,725
		928,264,540	717,148,087
Current liabilities			
Trade and other payables	18	4,887,270	1,252,321
Borrowings	10	395,517,782	312,777,510
Other accrued liabilities	12	1,239,452	1,053,117
		401,644,504	315,082,948
Net current assets		526,620,036	402,065,139
		616,964,498	486,156,569

The financial statements on pages 7 to 20 were approved and authorised for issue by the Board of Directors on 03/06/ 2022 and were signed on its behalf by:

________________ **DIRECTOR** ________________ **DIRECTOR**

The notes on pages 11 to 21 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 6.

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	**Retained earnings Shs**	**Total Shs**
Year ended 31 December 2021			
At start of year	50,000,000	392,583,530	442,583,530
Profit for the year	-	130,807,929	130,807,929
At end of year	50,000,000	523,391,459	573,391,459
Year ended 31 December 2020			
At start of year	50,000,000	266,140,874	316,140,874
Profit for the year	-	126,442,656	126,442,656
At end of year	50,000,000	392,583,530	442,583,530

Report of the independent auditor - pages 5 - 6.

STATEMENT OF CASH FLOWS

	Notes	2021 Shs	2020 Shs
Cash flows from operating activities			
Loss before tax		178,269,039	169,345,144
Adjustments for			
Depreciation on property, plant and equipment	13	18,976,715	2,132,637
Amortisation of intangible assets	14	227,286	146,076
Interest expense	7	20,284,450	16,368,605
Changes in working capital:			
- inventories		(65,481,771)	(20,621,001)
- trade and other receivables		(140,945,766)	(63,165,173)
- trade and other payables		3,634,949	(1,924,674)
- other accrued liabilities		186,335	135,390
Interest paid		(20,284,450)	(16,368,605)
Tax paid		47,461,110	(42,902,488)
Net cash used in operating activities		42,327,897	43,145,911
Cash flows from investing activities			
Cash paid for purchase of property, plant and equipment	13	(25,871,575)	(14,748,383)
Cash paid for purchase of intangible assets	14	(1,380,066)	(584,304)
Proceeds from disposal of property, plant and equipment		2,509,302	-
Net cash used in investing activities		(24,742,339)	(15,332,687)
Cash flows from financing activities			
Proceeds from borrowings		90,129,002	37,500,000
Repayments of borrowings		(87,306,025)	(5,905,389)
Net cash from financing activities		2,822,977	31,594,611
(Decrease)/increase in cash and cash equivalents		20,408,535	59,407,835
Movement in cash and cash equivalents			
At start of year		(10,171,243)	(69,579,078)
(Decrease)/increase		20,408,535	59,407,835
At end of year	17	10,237,292	(10,171,243)

The notes on pages 11 to 21 form an integral part of these financial statements.

Report of the independent auditor - pages 5 - 6.

NOTES

1. **General information**

The company is a limited liability company incorporated and domiciled in Kenya. The address of its registered office and its principal place of business is in Mombasa, Kenya. The principal activity of the company is that of assembling, selling and servicing of electrical items.

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 years presented, unless otherwise stated.

2.a) **Basis of preparation**

These financial statements of Sollatek Electronics (Kenya) Limited have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities issued by the International Accounting Standard Board and are consistent with the previous period.

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

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

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

Going concern

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

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

b) **Key sources of estimation uncertainty and judgements**

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

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

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

2. **Significant Accounting Policies (continued)**

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

- **Useful lives, depreciation methods and residual values of property, plant and equipment accounted for using the cost model and intangible assets-**
Management reviews the useful lives and residual values of the items of property, plant and equipment and intangible assets and on a regular basis. During the financial year, the management determined no significant changes in the useful lives and residual values. The carrying amounts of property, plant and equipment and intangible assest are disclosed in note 13 and 14.

c) **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and performance of services in the ordinary course of the company's activities. Revenue is shown net of value-added tax and discounts.

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

i) Sale of goods are recognised upon delivery of products and customer acceptance;
ii) Sale of service is recognised upon performance of services rendered; and
iii) Interest income is accrued by reference to time in relation to the principal outstanding and the effective interest rate applicable.

d) **Property, plant and equipment**

All property, 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 year in which they are incurred.

Depreciation is calculated on the reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate %
Leasehold land and buildings	Over unexpired period of lease (straight line)
Motor vehicles	25
Furniture, fittings and equipment	12.5
Computer equipment	30

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 prospectively if appropriate.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss.

2. **Significant Accounting Policies (continued)**

e) **Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on reducing balance basis at the rate of 12.5% over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

f) **Grants**

Grants are recognised as income over the period necessary to match them with the related costs for which they are intended to compensate on a systematic basis.

For capital grants income is recognised in profit or loss on the same basis as the depreciation on the asset.

For operating expenditure grants, income is recognised in profit or loss on the same basis as the expenditure incurred.

g) **Impairment of non-financial assets.**

At each reporting date, property plant and equipment and intangible assets are reviewed by the company to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

h) **Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and cash at bank net of bank overdrafts.

In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

i) **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. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method.

At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

2. **Significant Accounting Policies (continued)**

j) **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, the 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.

k) **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 finished goods comprises all costs attributable to bringing the inventory to their current location and condition, but excludes borrowings costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and 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.

l) **Borrowing costs**

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

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

m) **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.

n) **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.

o) **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 the 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.

2.) **Significant Accounting Policies (continued)**

o) **Taxation (continued)**

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.

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.

p) **Share capital**

Ordinary shares are classified as equity.

q) **Employee benefits**

Retirement benefit obligations

The company operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The company's contributions to the defined contribution staff retirement benefit scheme are charged to profit or loss in the year to which they relate. The company has no further payment obligations once the contributions have been paid. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

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

3. Revenue

	2021 Shs	2020 Shs
Revenue	745,715,356	607,532,505

4. Other operating income

Grant income.	20,876,216	-

The grant was given by African Enterprise Challenge Fund (AECF) to fianance part of the company's working capital and operating expenses.

5. Operating profit

	2021 Shs	2020 Shs
The following items have been charged in arriving at operating profit:		
Depreciation on property, plant and equipment (Note 13)	18,976,715	2,132,637
Auditors' renumeration	763,564	727,204
Directors' emoluments	23,079,359	19,232,799
Staff costs (Note 6)	48,000,528	38,397,344

6. Staff costs

Salaries and wages	39,718,356	32,372,190
Pension costs:		
- defined contribution scheme	3,060,283	1,823,796
Staff leave accruals (Note 12)	186,335	135,390
Staff medical expenses	3,811,703	3,046,092
Staff training	1,223,851	1,019,876
	48,000,528	38,397,344

The average number of persons employed during the year, by category, were:	No.	No.
Sales and distribution	28	30
Management and administration	6	6
	34	36

7. Finance costs

	2021 Shs	2020 Shs
Net foreign exchange loss	334,383	4,391,387
Interest expense:		
- Loans from external sources	20,284,450	16,368,605
	20,618,833	20,759,992

8. Tax

	2021 Shs	2020 Shs
Current tax	52,029,186	44,096,310
Deferred tax credit (Note 11)	325,914	(1,193,822)
Overprovision of current tax in prior years	(4,893,990)	-
Tax credit	47,461,110	42,902,488

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

	2021 Shs	2020 Shs
Profit before tax	178,269,039	169,345,144
Tax calculated at a tax rate of 30% (2020: 25%)	53,480,712	42,336,286
Tax effect of:		
- expenses not deductible for tax purposes	374,388	765,172
- effect of tax rate differential between current and deferred income tax	-	(198,970)
Overprovision of current tax in prior years	(4,893,990)	-
Tax credit	48,961,110	42,902,488

The statutory tax rate was reduced to 25% from 30% for the year of income 2020 by the Tax Laws (Amendment) Act, 2020. The tax rate was reinstated to 30% for the year of income 2021 by the Tax Laws (Amendment) (No 2) Act, 2020.

9. Share capital

	2021 Shs	2020 Shs
Authorised, issued and fully paid:		
2,500,000 (2020: 2,500,000) ordinary shares of Shs 20 each	50,000,000	50,000,000

10. Borrowings

The borrowings are made up as follows:

	2021	2020
Non- current		
Loans from shareholder (Note 19 (ii))	43,573,039	43,573,039
	43,573,039	43,573,039
Current		
Loans from external sources	395,517,782	302,460,867
Bank overdraft (Note 17)	-	10,316,643
	395,517,782	312,777,510
Total borrowings	439,090,821	356,350,549

10. **Borrowings (continued)**

The borrowings are secured by the following:

a) Bank overdraft:
i) Letter of agreement for advance accounts
ii) Letter of general lien and set off
iii) Joint and several guarantee by Christopher Soper Robert and Mohamed Nazirahmed Saleem in their personal capacities.

b) Loans from shareholder: unsecured.

c) Loans from external sources: subject to convenants of agreement.

Undrawn facilities as at the reporting date were as follows

	2021 Shs	2020 Shs
Bank overdraft	150,000,000	139,683,357
	150,000,000	139,683,357

11. **Deferred tax**

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2020: 30%). The movement on the deferred tax account is as follows:

	2021 Shs	2020 Shs
At start of year	(2,072,608)	(878,786)
Credit to profit or loss (Note 8)	325,914	(1,193,822)
At end of year	(1,746,694)	(2,072,608)

Deferred tax is attributable to the following items:

	At start of year Shs	Credit to profit or loss Shs	At end of year Shs
Deferred tax assets			
Accrued staff leave	(315,935)	(55,900)	(371,835)
Unrealised foreign exchange difference	(1,652,474)	476,488	(1,175,986)
Property, plant and equipment	(104,199)	(94,674)	(198,873)
Net deferred tax asset	(2,072,608)	325,914	(1,746,694)

Deferred tax assets on tax losses carried forward and deductible temporary differences are only recognised to the extent of certainty of availability of sufficient future taxable profits to utilise such losses and deductible temporary differences against.

The tax losses and deductible temporary differences can be carried forward indefinitely.

12. Other accrued liabilities

	Outstanding staff leave days accrual 2021 Shs	Outstanding staff leave days accrual 2020 Shs
At start of year	1,053,117	917,727
Charge to profit or loss (Note 6)	186,335	135,390
At end of year	1,239,452	1,053,117

13. Property, plant and equipment

	Leasehold land Shs	Buildings Shs	Motor vehicles Shs	Furniture, fittings and equipment Shs	Computer equipment Shs	Total Shs
Cost						
At start of year	2,500,000	19,091,424	39,218,146	26,268,598	10,407,125	97,485,293
Additions	-	15,000,000	8,395,000	1,944,275	532,300	25,871,575
Disposals	-	-	(1,909,302)	-	-	(1,909,302)
At end of year	2,500,000	34,091,424	45,703,844	28,212,873	10,939,425	121,447,566
Accumulated depreciation						
At start of year	575,165	2,786,257	4,217,861	3,761,488	4,563,928	15,904,699
On disposals			(440,608)	-	-	(440,608)
Charge for the year	28,305	3,130,517	10,848,821	3,056,423	1,912,649	18,976,715
At end of year	603,470	5,916,774	14,626,074	6,817,911	6,476,577	34,440,806
Net carrying amount						
As at 31 December 202	1,896,530	28,174,650	31,077,770	21,394,962	4,462,848	87,006,760
As at 31 December 202	1,924,835	16,305,167	35,000,285	22,507,110	5,843,197	81,580,594

Depreciation expense has been charged to establishment expenses in profit and loss account.

14. Intangible assets

	2021 Shs	2020 Shs
Cost		
At start of year	584,304	-
Additions	1,380,066	584,304
At end of year	1,964,370	584,304
Accumulated depreciation		
At start of year	146,076	-
Charge for the year	227,286	146,076
At end of year	373,362	146,076
Net carrying amount	1,591,008	438,228

15. Inventories

	2021 Shs	2020 Shs
Finished goods	358,375,900	306,963,879
Less: Impairment allowance	(4,375,310)	-
Goods in transit	193,365,810	174,920,750
	547,366,400	481,884,629

16. Trade and other receivables

	2021 Shs	2020 Shs
Trade receivables	362,367,237	211,273,953
Less: Impairment allowance	(2,389,230)	(3,114,303)
Net trade receivables		
	359,978,007	208,159,650
Prepayments	3,897,769	8,091,049
Other receivables	3,703,323	10,382,634
	367,579,099	226,633,333

17. Cash and cash equivalents

	2021 Shs	2020 Shs
Cash and bank	10,237,292	145,400

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2021 Shs	2020 Shs
Cash and bank	10,237,292	145,400
Bank overdraft (Note 10)	-	(10,316,643)
	10,237,292	(10,171,243)

18. Trade and other payables

	2021 Shs	2020 Shs
Accruals	4,887,270	1,252,321
	4,887,270	1,252,321

19. Related party transactions and balances

The following transactions were carried out with related parties:

i) Key management compensation

	2021 Shs	2020 Shs
Salaries and other short term employment benefits	23,079,359	19,232,799
Pension costs: defined contribution scheme	760,586	633,822
	23,839,945	19,866,621

19. Related party transactions and balances (continued)

	2021 Shs	2020 Shs
ii) Loans from shareholder		
At start of year	43,573,039	43,573,039
Repayment	-	-
At end of year (Note 10)	43,573,039	43,573,039

Interest on the loans from shareholders and borrowing from related party accrues at the end of every year (at a rate which is midway between Prime Bank Limited lending and borrowing rates on the balance outstanding) only if the company's performance is 50% or more above the target. No interest has been accrued during the year (2020: Nil) as the company did not meet the performance target. These loans are unsecured and not repayable within 12 months of the reporting date.

20. Commitments

	2021 Shs	2020 Shs
Operating lease commitments - as a lessee		
Not later than 1 year	1,677,849	1,560,790
Later than 1 year and not later than 5 years	4,574,747	6,252,596
	6,252,596	7,813,386

The company leases various properties under non-cancellable operating lease agreements. The lease terms are between 5 to 6 years and these are generally renewable at the end of the tenure of the lease.

21. Presentation currency

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