



Ernestea Limited

Annual Report 2018

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With over 30 years of experience in planting and growing tea in Kericho County, Ernestea Limited's core investors intends to progress the value chain from primary production to value addition and carry out the business of producing, packaging, marketing and exporting made tea products. Building on the new Cottage Tea Factory policy from the Tea Directorate, Ernestea intends to establish a Cottage Tea Factory in Kericho County.

Our Vision

Production of delicious, health enhancing, sustainable specialty teas for a global market.

Our Mission

To promote our processes and capacity to produce superior tea from the Kaptabewset Farm, and serve our customers with high quality, environmentally sustainable specialty teas.

Our Focus

Discerning tea drinkers committed to quality tea, and environmental sustainability.



Our History

48 years ago, while on holiday from his teaching duties, Kenya's future Ambassador to Russia, Ernest Lang'at and his wife Lydia took their young daughters to the farm in Kaptabeswet village in Kericho County of Kenya. They taught the girls how to plant tea seedlings perpendicular from the slope, 1 meter apart.

This practice evolved into an annual tradition as year by year the farm grew from 1,000 bushels on a ¼ acre in 1961, to a 80-acre plantation. The produce, together with tea leaves from neighboring tea gardens, was delivered to the government factories for processing in the traditional cut, tear and curl method.

Decades later, Ambassador Ernest, his nine daughters and their families, realized that customers could enjoy a superior taste and increased health benefits if the leaves were rolled instead of cut, if more organic fertilizer was produced and applied, and if innovation in the tea production process was carefully managed from start to finish. In 2017 Ernestea Ltd. was registered as a cottage tea factory processing 2,000 kilograms of fresh green leaf per day. The resultant product of specialty teas targets a discerning clientele demanding the highest quality teas.



The farm grew from **1,000 bushels** on a ¼ acre in 1961, to **an 80 acre** plantation

Our Teas

The green leaf used to produce Ernestea Ltd. comes from the Ambassador's 80-acre garden in Kericho, Kenya. Production is overseen by the Ambassador's daughters and their spouses, supported by an experienced management team. The tea bushes are pesticide-free, nurtured and tended on the volcanic soils of the Great Rift Valley at an altitude 2,100 m above sea level.

In 2019, the Ernestea initiated a process for full organic certification of the Kaptabeswet and its adjacent farms by 2022. Ernestea closely monitors the plucking and rolling of teas under an experienced tea master, assuring adherence to strict hygiene protocols for a consistent, high quality range of specialty red, green, purple, yellow and white orthodox teas.

Ernestea production is categorized under the cottage industry in Kenya. Tea from the garden is picked daily with the potential to yield 1,000 kg of handmade tea a week. Currently Ernestea will produce and send samples of hand rolled teas on request.

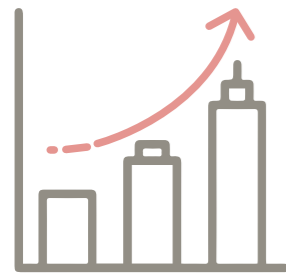


Tea from the garden is **picked daily** with the potential to yield **1,000 kg** of handmade tea a week

Chairman's Report 2018

Dear Shareholders,

It is with pleasure that we welcome you to our annual general meeting to present Ernestea Ltd's annual report and financial statements for the year that ended December 31, 2018. The audited accounts reflect the cumulative performance of the company from inception.



Contributions continue to **Increase**

Shareholders

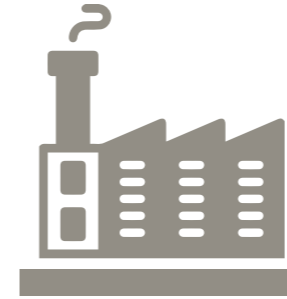
We have maintained the original shareholders that have been together since the formation of Ernestea Ltd to buy stakes in Kipsonoi Tea Factory in October 2012. Shareholders have increased the amounts they have contributed since 2012 from KES 6,000 to the audited position in 2018 of KES 23,000,000 and they continue to increase the funding in 2019 to meet the needs of Ernestea Ltd as it has moved towards commencement of production. Thank you shareholders for these continued investment in the company. At the time of writing this report an additional KES 7,000,000 plus has been contributed.



Production license issued in **June, 2018**

Cottage Tea Production License

Ernestea Ltd submitted a feasibility study and business plan for the development of the Cottage Tea Factory to the Tea Directorate of The Agriculture and Food Authority (AFA) of the Kenya Government in June 2017. Related documentation, discussions, explanations and evaluations have been undertaken by Ernestea to complete the process. Teams from The Tea Directorate and Tea Research made visits to the factory site and the source farms for the raw tea, to review and evaluate the suitability of the undertaking. The AFA completed its considerations and reviews and issued Ernestea with a production license in June, 2018. Ernestea is licensed to process specialty tea and AFA will continue to review our processes and production annually, to confirm our compliance with the terms of the license.



Contributions have bought land. **Construction is an ongoing project**

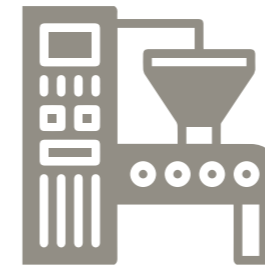
Land and Factory Building

The moneys contributed by shareholders, have been applied to three major areas.

- Buying land,
- Building the factory and
- Consultancies.

Part of the moneys received from shareholders were used to buy land at a market value of over KES 13.7 million. The land title is now in the name of Ernestea Ltd. The moneys applied to the construction of the site office and factory building, which are ongoing projects, comes to over KES 8.7 million. The figures are from the audited financial statement as at December 31, 2018.

Writing the feasibility study and business plan, acquiring the land and putting up the factory building have all involved the use of consultants beside the great input from shareholders. We have been using a tea master in establishing products that will be made by our factory and the machinery, technology necessary to operationalize the factory for production.



Quotes will be evaluated **before purchase of machines**

Production Machinery

We made a visit to China in first quarter of 2018 to shop for machinery to be used in the production of specialty teas, the core business of Ernestea. Anxi Yongxing Machinery Co Ltd the host company conducted the tour that included visits to the major Chinese tea markets and factories. Chinese take their tea seriously. They offered to supply the tea machinery at USD 110,000 or KES 12 to 12.5 million. We have also received quotations from India. We will be evaluating and recommending a supplier in the next few months, depending on the best interests of the company.

Marketing

During the year we have been seeking takers of the final product we plan to make at Ernestea. We have recorded interest from the USA and China. We will continue to seek and widen our market for these teas. We have it from statistics (AFA) and online that there is high demand, and that with samples the markets will open up. We have tested the markets with handmade teas samples during 2019 and received fairly positive feedback.



Target of 1st production is **end October 2019**

The Next Phase

To this point in time we have applied our time and resources to establish the housing for our core business, processing specialty teas. The factory building is substantively complete but for the walling, doors and windows. We will be working at completing these as soon as possible. We will be placing the order for machinery before the end of the third quarter of 2019. Placement of the order will involve considering the levels of production, the financial costs and the post-delivery support.

During the third quarter we will start the process of recruiting staff to professionally manage the production and hopefully have our first handmade tea in the markets by the end of October, 2019. In addition we plan to put together a governance structure to give leadership and efficiency to Ernestea as it moves into production and engages with the market.



The challenges faced during the reporting period are **primarily associated with a startup**. We have been slowed down by limited resources in **funds and man power**

Challenges and Appreciation

The challenges faced during the reporting period are primarily associated with a startup. We have been slowed down by limited resources in funds and man power. The lack of tasters of the handmade tea without a complete factory, makes it difficult to project cash flows for the company when making business plans. The marketing trip to the eastern coast of the USA by directors when on other business brought out other challenges. The need to develop capacity of the board, staff and management to differentiate the production of specialty teas, from that of the regular CTC tea. Deliberately working to skill and train pluckers to pick green leaf for specialty teas is an undertaking that has to be planned and done.

The need to seek and obtaining tasters and tea masters to ensure quality products has also to be addressed. Finally, commencing the branding process to reflect the unique place of our teas in the Kenyan and world tea market has to be done. Ernestea Ltd needs to embrace the goal of an exclusive and original product, and nurture the confidence not to mimic, but to create and innovate our own line of teas that can claim a place in the market.

The company will explore the feasibility to attain a range of certifications - from Rainforest Alliance, organic, fair trade and so on, to be able to penetrate key markets in Western Europe and North America. Some of these certifications are a minimum requirement for the international market and we need to plan and start the process.

Our continued appreciation goes out to the shareholders and associates (the next generation) that have given their money, professional services and time to move Ernestea Ltd to the next level. Please continue supporting Ernestea with ideas and resources to become an efficient, unique and profitable entity.

May God bless us and Ernestea.

Ambassador Ernest Lang'at
The Chairman

Workplan Checklist FY 2018

Activity	Start Date	End Date	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1 Routine building, grounds, environment maintenance	1 Jan	31 Dec												
2 Install, commission factory equipment	1 Jan	31 Dec												
3 Financing and accounts	1 Jan	31 Dec												
4 Human resources, administration	1 Jan	31 Dec												
5 Farm and out-grower management	1 Jan	31 Dec												
6 Production operations, samples distribution	1 Jan	31 Dec												
7 Sales, marketing, product development	1 Jan	31 Dec												
8 ICT systems upgrade	1 Jan	31 Dec												
9 Regulatory compliance and corporate governance	1 Jan	31 Dec												

Factory Building Progress



Roofing in progress
DD/MM/YYY



Roofing is complete
DD/MM/YYY



Financial Overview

For the year ended 31st December, 2018

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Company Information

Board of Directors Ernest Cheruiyot Lang'at
Job Kimutai Rop
Caroline Lang'at Thoruwa
William Rahedi
Judith Lang'at Mutahi
Betty Lang'at Chirchir

Registered Office 53 Magnolia Close
P.O Box 2768-00621
Gigiri, Nairobi.

Independent Auditors Charles & Co
Certified Public Accountants (K)
Rehema House 2nd Floor
P.o Box 1802-00100
Nairobi

Principal Bankers Barclays Bank of Kenya Limited
Westgate Branch
P.O Box 14820-00623
Nairobi, Kenya



Report of Directors

The directors submit their report together with the audited financial statements for the twelve months period ended 31st December 2018, which disclose the state of affairs of the company.

Incorporation

The company is incorporated in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The address of the registered office is as set out on page 1.

Principal activities

Investment in tea business

Results and dividends

The directors do not recommend the payment of dividends.

Directorate

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

Auditors

The Company auditors Messrs Charles & Co who were appointed during the year have expressed their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap 486).

By order of the board

Director

_____ 2019

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgments that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 31st December 2018 and of its statement of comprehensive income and statement of cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Approved for issue by the board of directors on _____ 2019 and signed on its behalf by:

Director

Director

