

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

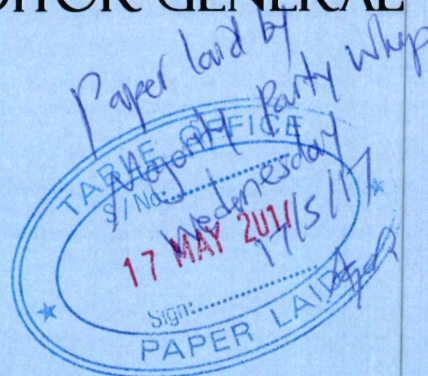
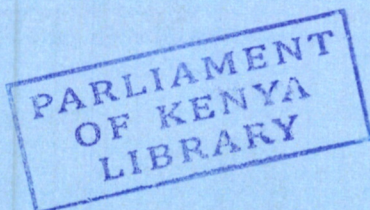
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
KIPCHABO TEA FACTORY LIMITED (A  
SUBSIDIARY OF NYAYO TEA ZONES  
DEVELOPMENT CORPORATION)

FOR THE YEAR  
ENDED 30 JUNE 2016





**KIPCHABO TEA FACTORY LIMITED**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30TH JUNE 2016**

**(Prepared in accordance with International Financial Reporting  
Standards)**

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI

15 FEB 2017

**RECEIVED**

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## CHAIRMAN'S STATEMENT

### General

I am delighted to present to you the Annual Report and financial statements of Kipchabo Tea Factory Limited for the year ended 30 June 2016. The Factory is a wholly owned subsidiary of Nyayo Tea Zones Development Corporation.

### Financial Results

During the year volumes of processed tea sold decreased by 29% to 2,253,574 Kgs compared to 3,185,796 Kgs in the previous year. Revenues decreased by 9% to Ksh. 561 million which was mainly attributed to lower volumes. Expenses decreased to Ksh. 151.5 Million compared to Ksh. 164 Million in the previous year. Overall the company recorded a net profit of Ksh. 36.9 million compared to a profit of Ksh. 37.9 million recorded in the previous year.

### Operations

Total green leaf received by the factory was 11,126,318 Kgs which is a decrease of 14% compared to 12,928,567 Kgs in the previous year. Out of the total green leaf received, out growers contribution was 2,570,162 Kgs which is 23% while the rest was collected from Nyayo Tea Zones in the factory catchment namely Nandi, kakamega and Kapsokwony. Out-growers volume 2,570,162 Kgs is a decrease of 45% compared to 4,663,711 Kgs in the previous year.

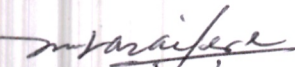
Processed tea volumes decreased by 8% to 2,606,380 Kgs compared to 2,842,849 Kgs in the previous year giving an out-turn of 23% (2014/2015 - 22%).

### Future outlook

Tea prices in the global market are expected to improve in future and this will boost the company's revenues. The company projects to grow its local market share which will also generate additional revenue and cushion against volatility in the Mombasa Auction prices as well as exchange rate fluctuations.

### Appreciation

I take this opportunity to appreciate the valuable support given by our stake holders namely the customers, suppliers, bankers and the local community. On behalf of the board I also wish to express my gratitude to the management, staff and the Government for their commitment to the Company. With your support the company will continue to grow sustainably for the benefit of all stakeholders.

  
Mathew Iteere

Chairman

Date.....13/02/2017

## **CORPORATE INFORMATION**

### **Directors:**

Mr. Mathew Iteere – Chairman – Re-appointed to the board in 2016  
Mr. Peter K. Korir - Managing Director - appointed to the board in 2012  
Ms. Angeline M. Savala – Member - appointed to the board in 2009, left Sep 2015  
Ms. Faith Boinett – Member - appointed to the board in 2009, left Sep 2015  
Mr. John N. M. Nyaga – Member - appointed to the board in 2009, left Sep 2015  
Mr. Kibiwott Ruto – Member - appointed to the board in 2012, left Sep 2015  
Mrs Naomi Wanja Kathurima – Appointed to the board in Apr 2015  
Dr Wilson Soy – Member - appointed in Oct 2015  
Mr. George Kibiru – Member - appointed in Oct 2015  
Ms Hellen Nyatuka – Member - appointed in Oct 2015  
Mr. Raymond Kemei – Member - appointed in Oct 2015  
Mr. Clement Muyesu - Member (Alternate to Principal Secretary Ministry of Agriculture Livestock & Fisheries) appointed to the board in 2014  
Mr. James Aloyo – Member (Alternate to Principal Secretary Treasury)

### **Registered Office and Principal place of Business:**

Nyayo House- 11 Floor  
Kenyatta Avenue  
P.O. Box 48552 - 00100

**NAIROBI**

### **Auditors:**

Auditor-General  
Anniversary Towers  
P.O. Box 30084-00100








**NAIROBI**

### **Bankers:**

Kenya Commercial Bank Ltd  
Kipande House Branch  
P.O. Box 30012



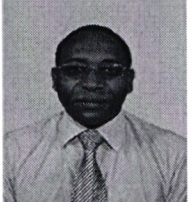

**NAIROBI**

## BOARD OF DIRECTORS

1	 <b>Mathew Iteere</b> (MGH, CBS, OGW, DCO) – Chairman	Mr. Iteere is 55 years old and joined the board in February 2013. Prior to joining the board, he was the Commissioner of Police of Republic of Kenya from 2009 to 2012. Mr Iteere holds a Diploma in Education.
2	 <b>Peter K. Korir</b> – Managing Director	Mr. Peter Korir is 47 years and joined the board in November 2012. He holds a Bachelor of Science degree in Mathematics from Egerton University and MBA (Strategic Management) from University of Nairobi. He is also a graduate of IESE Business school in Advanced Management. He has over 20 years' experience in management having previously worked with East African Portland Cement and Unilever Kenya in various management positions.
3	 <b>Angeline M. Savala</b> – Member	Ms Savala is 52 years old and joined the board in 2009. She holds a doctorate in Religion and Philosophy from Masinde Muliro University of Science and Technology. She left the board in September 2015.
4	 <b>Faith Jepkemboi Boinett</b> – Member	Ms Boinett is 35 years old and joined the board in 2009. She holds a Bachelor of Laws degree (LLM). She is an advocate of the High Court of Kenya based in Eldoret. She also sits in the Board of Kenya Pipeline Company. She left the board in September 2015.
5	 <b>Naomi W. Kathurima</b> – Member	Ms Kathurima is 51 years old and joined the board in April 2015. He holds a Masters degree in Education and is currently pursuing Phd degree in early childhood education. She is a lecturer at Kenyatta University school of Education.
6	 <b>Kibiwott Ruto</b> – Member	Mr. Ruto is 53 years old and joined the board in 2012. He holds a Bachelor of Science degree in Business Administration and is a Certified Public Accountant. He previously worked as an accountant in the corporation. He is in private business. He left the board in September 2015.
7	 <b>John N. M. Nyaga</b> – Member	Mr Nyaga is 78 years old and joined the board in 2009. He holds a Master of Science degree in Management and Organizational Development He is a former Mayor and Town Clerk of Embu Municipal Council and a retired civil servant. He is currently pursuing a doctorate degree in marketing from the University of Nairobi. He left the board in September 2015.
8	<b>Clement Muyesu</b> – Member (Alternate to Principal Secretary Ministry of Agriculture Livestock & Fisheries)	Mr. Muyesu is 55 years and joined the board in 2014. He represents the Principal Secretary Ministry of Agriculture Livestock & Fisheries in the board during the year. He holds Bsc degree in agriculture. He is currently assistant Director in the Ministry of Agriculture Livestock & Fisheries, State Department of Agriculture
9	<b>James Aloyo</b> – Member (Alternate to Principal Secretary Treasury)	Mr. Aloyo represented the Principal Secretary, The Treasury in the board during the year
10	<b>Hellen K. Nyatuka</b> - Member	Ms Nyatuka is 34 years and was appointed to the Board in April 2015. She holds

		Bsc in Computer Science and Diploma in Project Management. She is currently a program manager with Calvary Covenant Community Centre and has over 10 years working with NGOs
11	<b>Raymond K. Kemei – Member</b>	Mr. Kemei is 44 years old and joined the board in October 2015. He holds MBA degree in strategic management and BA degree in economics. He also has a diploma in project management. He is currently a production manager with KTDA and has over 15-year experience in tea industry
12	<b>George N. Kibiru - Member</b>	Mr. Kibiru is 44 years old and joined the board in October 2015. He holds Bcom degree and is a Certified Public Accountant, CPA(K) and a Certified Public Secretary CPS(K). He is currently a consultant in finance, auditing and tax with Njagi & Associates and has over 18 years' experience in finance and auditing
13	<b>Dr. Wilson K. Soy</b>	Dr. Soy is 59 years old and joined the board in October 2015. He holds a Phd in Business Administration, MBA and BBA degrees. He is Currently a consultant with Leadstar Africa Consult Ltd as well as a part-time lecturer. He has over 30 years' experience in tea industry.

#### MANAGEMENT TEAM

1	 <p><b>Peter K. Korir – Managing Director</b></p>	Mr Peter Korir is 47 years and joined the board in November 2012. He holds a Bachelor of Science degree in Mathematics from Egerton University and MBA (Strategic Management) from University of Nairobi. He is also a graduate of IESE Business school in Advanced Management. He has over 20 years' experience in management having previously worked with East African Portland Cement and Unilever Kenya in various management positions.
2	 <p><b>Samuel Njire – Head of Finance</b></p>	Mr Samuel Njire joined the corporation in 2009 and is the Head of Finance. He holds a Bachelor of Commerce (Accounting) and MBA (Finance) degrees from University of Nairobi. He is also a certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK) He is responsible for overall financial stewardship of the corporation. He has over 21 years' experience in finance in both public and private institutions
3	 <p><b>Charles Mucheke – Head of Operations</b></p>	Mr Charles Mucheke joined the Corporation in 2004 and is the Head of Operations. He holds a Bachelor of Science (Agriculture) and MBA (Operations Management) degrees from University of Nairobi. He is responsible for all agronomy operations in the Corporation. Prior to joining the Corporation, he worked with KTDA and has over 21 years' experience in the tea industry.
4	 <p><b>William Togom – Head of Human Resource and Administration</b></p>	Mr Togom joined the corporation in 1996 and is the head of human resources and administration. He holds a Bachelor of Arts degree in Anthropology. He has over 20 years' experience in human resource and administration.



**David Chepkwony – Head of Commercial**

Mr Chepkwony is 45 years old and joined the corporation in 2014 as head of commercial unit. He holds a Bachelor of Commerce degree in Marketing. Prior to joining the Corporation, he worked with Ketepa, Del Monte Kenya Ltd, Reckitt Benckiser EA Ltd & Unilever Kenya Ltd and has over 18 years' experience in sales and marketing.

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30 June 2016, which disclose the state of affairs of the Corporation.

### Incorporation

The Company is registered in Kenya under the companies Act (Cap.486) registration certificate number CPR/2010/33168. It is a wholly owned subsidiary of Nyayo Tea Zones Development Corporation which is registered in Kenya through a Gazette notice LN265/1986 as a parastatal and is resident in Kenya.

### Principal Activity

The Company's principal activity is processing of CTC black Teas from green leaf. The green leaf is produced from the tea buffer belts established in the gazette forests and from outgrowers. This enhances conservation through value addition.

### Results

	<b>2015/2016 (Ksh)</b>	<b>2014/2015 (Ksh)</b>
Profit /(Loss) before tax	36,867,654	37,995,794
Net Profit/ (Loss) for the year	<u>36,867,654</u>	<u>37,995,794</u>

### Directors

The directors who held office during the year and to date of this report are shown on page (vi)

### Auditors

The Auditor-General is responsible for the statutory audit of the Corporation books of account

By order of the Board

**Peter Korir**

**Managing Director**

Date.....13/02/2017

## **STATEMENT OF CORPORATE GOVERNANCE**

Corporate governance is the manner in which the power of, and the power over a company is exercised in the stewardship of its assets and resources so as to enhance and sustain shareholders' value while at the same time satisfying the needs and interests of all its stakeholders. The Company recognizes that corporate governance is a shared responsibility and as such accords the shareholders opportunity to exercise their responsibility for safeguarding and propagating their interests by participating in its affairs, as appropriate, to ensure it is well governed.

The Company conducts its operations in accordance with recommended principles of good corporate governance as provided in Public officers and ethics Act as well as Public Financial Management Act 2015.

All the board members except the Managing Director are non-executive and are appointed for a renewable term of 3 years for a maximum of 2 terms.

The board has established 3 committees; (i) Production, Business Development & Strategy Committee (ii) Audit & Risk Management Committee and (iii) Finance, Human Resources & ICT Committee. Each committee meets at least once every quarter before tabling their reports to the full board.

The company is also focused on enhancing stakeholder's relations program to embrace best practice and to keep all stakeholders informed on the business.

## **STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY**

The Company continues to emphasize on the importance of Corporate Social Responsibility (CSR) for a sustainability of its operations.

The Company supported various initiatives amongst them Nandi County government agricultural events and Kericho Tea marathon. The Company also contributes in road maintenance in areas it operates either directly or indirectly through tea cess payments. We also support our farmers by providing them with subsidized fertilizer that is issued against green leaf deliveries.

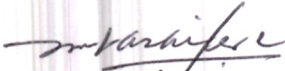
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The State Corporations Act requires the directors to prepare financial statements for each year, which give a true and fair view of the state of affairs of the corporation and of its operating results for that year. It also requires the directors to ensure that the corporation keeps a set of proper accounting records, which disclose with reasonable accuracy at any time the financial position of the corporation. They are also responsible for safeguarding the assets of the corporation.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the legal requirements.

The directors are of the opinion that the financial statements give a true and fair view of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

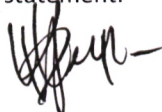
Nothing has come to the attention of the directors to indicate that the corporation will not remain a going concern for at least the next twelve months from the date of this statement.



Mathew Iteere

Chairman

Date...13/02/2017



Peter Korir

Managing Director

Date...13/02/2017

# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KIPCHABO TEA FACTORY LIMITED (A SUBSIDIARY OF NYAYO TEA ZONES DEVELOPMENT CORPORATION) FOR THE YEAR ENDED 30 JUNE 2016

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kipchabo Tea Factory Limited set out on pages 1 to 8, which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

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*Report of the Auditor-General on the Financial Statements of Kipchabo Tea Factory Limited, a Subsidiary of Nyayo Tea Zones Development Corporation for the year ended 30 June 2016*

opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

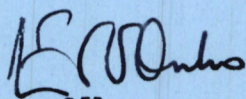
### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kipchabo Tea Factory Limited as at 30 June 2016, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the Companies Act, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. in my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and
- iii. the company's statement of financial position is in agreement with the books of account.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**21 March 2017**

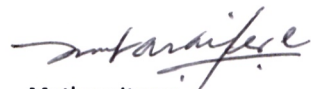
	Notes	2015/2016 Kshs	2014/2015 Kshs
Turnover	2 (a)	561,149,720	619,606,886
Cost of Production	2 (b)	<u>(377,003,502)</u>	<u>(437,464,637)</u>
<b>Gross Profit</b>		<b>184,146,218</b>	<b>182,142,249</b>
Administrative Expenses	2 (c)	(48,304,789)	(62,078,084)
Other Operating Expenses	2 (d)	(55,258,190)	(53,168,512)
Employment Expenses	2 (e)	<u>(46,432,388)</u>	<u>(34,539,653)</u>
		<b>(149,995,367)</b>	<b>(149,786,249)</b>
<b>Operating Profit Before finance Costs</b>		<b>34,150,850</b>	<b>32,356,000</b>
Finance Costs	2 (e)	<u>-</u>	<u>(14,225,111)</u>
<b>Profit before Exceptional Item</b>		<b>34,150,850</b>	<b>18,130,889</b>
Other income- Exchange Gain / (Loss)	2(g)	<u>2,716,804</u>	<u>19,864,905</u>
<b>Net profit/(loss) for the year</b>		<b>36,867,654</b>	<b>37,995,794</b>

**KIPCHABO TEA FACTORY LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30th Jun 2016**

	Notes	2015/2016 Ksh.	2014/2015 Ksh.
Property, Plant & Equipment	3	762,065,260	787,272,923
<b>CURRENT ASSETS</b>			
Inventories	4	122,291,937	49,466,527
Trade Receivables	6	74,452,805	70,432,405
Cash & Bank Balances	5	9,064,351	86,316,536
<b>TOTAL CURRENT ASSETS</b>		<b>205,809,093</b>	<b>206,215,467</b>
<b>CURRENT LIABILITIES</b>			
Trade & Other Payables	7	142,418,120	204,899,811
<b>TOTAL CURRENT LIABILITIES</b>		<b>142,418,120</b>	<b>204,899,811</b>
<b>NET CURRENT ASSETS</b>		<b>63,390,973</b>	<b>1,315,656</b>
<b>TOTAL NET ASSETS</b>		<b>825,456,233</b>	<b>788,588,579</b>
<b>FINANCED BY</b>			
Ordinary Shares	8	100,000	100,000
Share Premium	8	809,171,518	809,171,518
Accumulated Profit / (Loss)	8	16,184,715	(20,682,939)
<b>TOTAL CAPITAL</b>		<b>825,456,233</b>	<b>788,588,579</b>

The financial statements were approved by the Board of Directors on.....  
and were signed on its behalf by:-

13/02/2017



**Mathew Iteere**  
Chairman



**Peter Korir**  
Managing Director

**STATEMENT OF CHANGES IN EQUITY**  
**2015/2016**

Note	Accumulated Fund Kshs	Revenue Reserves Kshs	Total Kshs
Shareholders Funds	809,271,518	(58,678,732)	750,592,786
Net Profit/(Loss) for the year		37,995,794	37,995,794
<b>As at 30th June 2015</b>	<b><u>809,271,518</u></b>	<b><u>(20,682,939)</u></b>	<b><u>788,588,579</u></b>
	-		-
Net Profit/(Loss) for the year		36,867,654	36,867,654
<b>As at 30th June 2016</b>	<b><u>809,271,518</u></b>	<b><u>16,184,715</u></b>	<b><u>825,456,233</u></b>

**2014/2015**

Note	Accumulated Fund Kshs	Revenue Reserves Kshs	Total Kshs
Shareholders Funds	788,982,869	(835,653)	788,147,215
Shareholders capital injection	20,288,649		20,288,649
Net Profit/(Loss) for the year		(57,843,079)	(57,843,079)
<b>As at 30th June 2014</b>	<b><u>809,271,518</u></b>	<b><u>(58,678,732)</u></b>	<b><u>750,592,786</u></b>
	-		-
Net Profit/(Loss) for the year		37,995,794	37,995,794
<b>As at 30 Jun 2015</b>	<b><u>809,271,518</u></b>	<b><u>(20,682,939)</u></b>	<b><u>788,588,579</u></b>

**STATEMENT OF CASHFLOWS**

	Note	2015/2016 Kshs Kshs	2014/2015 Kshs
<b>Cashflow from Operating Activities</b>			
Operating Profit (Loss)		36,867,654	37,995,794
Exchange gain	2 (g)	(2,716,804)	
Depreciation of Fixed Assets	3	52,999,807	50,413,041
<b>Profit Before Working Capital Changes</b>		<b>87,150,657</b>	<b>88,408,835</b>
(Decrease) / Increase in Debtors & Prepayments	6	(1,303,597)	(41,438,287)
Increase / (Decrease) in Creditors & Accruals	7	(62,481,692)	(120,647,229)
Increase in Stock	4	(72,825,410)	112,933,100
<b>Net Changes in working Capital</b>		<b>(136,610,699)</b>	<b>(49,152,416)</b>
<b>Net Cash Generated from Operating Activities</b>		<b>(49,460,041)</b>	<b>39,256,418</b>
<b>Cashflows used in Investing Activities</b>			
Purchase of Fixed Assets	3	(27,792,144)	(8,991,031)
<b>Net Cash (Used) in Investing Activities</b>		<b>(27,792,144)</b>	<b>(8,991,031)</b>
<b>Cash Used in Financing Activities</b>			
<b>Net Cash Used in Financing Activities</b>		<b>-</b>	<b>-</b>
<b>Net Increase in Cash and Cash Equivalents</b>		<b>(77,252,185)</b>	<b>30,265,387</b>
<b>Movement in Cash and Cash Equivalents</b>			
At 1st July 2015	5	86,316,536	56,051,149
Increase/(Decrease) in the year		(77,252,185)	30,265,387
<b>At 30th Jun 2016</b>	<b>5</b>	<b>9,064,351</b>	<b>86,316,536</b>

**NOTES TO THE ACCOUNTS**

**1. Summary of Significant Accounting Policies**

**(a) Statement of compliance and basis of preparation**

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of Kipchabo Tea Factory.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

**(b) Revenue Recognition**

Revenue represents the fair value of the consideration received or receivable for sales of goods and Services, and is stated net of value-added tax (VAT), rebates and discounts and after eliminating sales Within the Group. Revenue is recognised as follows:

(i) Sales of goods are recognised when significant risk and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and when there is no continuing management involvement and the amount of revenue can be measured reliably.

(ii) Sales of services are recognised in the period in which the services are rendered by reference to the completion of specific transactions assessed on the basis of actual service provided as a proportion of total services to be provided. Sales revenue can only be recognised when the associated costs can be estimated reliably and the amount of revenue can be estimated reliably.

**(c) Property Plant & Equipment**

Property, plant and equipment are measured at cost or revalued amounts less accumulated depreciation and any impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

**(d) Depreciation and impairment of property, plant and equipment**

Depreciation is calculated on a straight line basis, at annual rates estimated to write-off the assets over their expected useful lives.

The annual depreciation rates in use are: -

Buildings	2%	Office Equipment	20%
Machinery	6.65%	Computers & Accessories	33.33%
Furniture & Fixtures	12.5%	Motor Vehicles	20%

**(e) Inventories**

Finished Tea and Other inventories are stated at cost which is determined on weighted average. Cost is determined on the weighted average cost. Cost comprises expenditure incurred in the normal course of business, including direct material costs, labour and production overheads, where appropriate, that have been incurred in bringing the stocks to their present location and condition. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for costs of realisation. Consumable stores are stated at the weighted average cost less provisions for obsolescence, slow moving and defective stocks.

**(f) Trade and other receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

**(g) Accrued expenses – specific and general provisions**

Provision is made for specific and general expenses incurred during the accounting period but where invoices have not been received. The expenses are charged in the accounting period in the year they are incurred and not necessarily when they were paid. General expenses are measured only using substantial degree of estimation.

**(h) Financial risk management**

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, liquidity risk and operational risk. The board has come up with policies for mitigating risks where its implementation is reviewed on quarterly basis.

**(i) Related Party disclosures**

The company is involved in processing of Green leaf tea some of it delivered by the parent corporation (Nyayo Tea Zones). As at close of the year the factory owed the parent Corporation Ksh, 112,824,408 for green leaf delivered.

**NOTES TO THE ACCOUNTS**

	<b>2015/2016</b>	<b>2014/2015</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>2 (a) Turnover</b>		
Sale of Finished Tea	561,149,720	619,606,886
	<b>561,149,720</b>	<b>619,606,886</b>
<b>2 (b) Cost of Production</b>		
Opening Stock	49,466,527	162,399,627
Green Leaf Intake	332,926,989	225,511,916
Other factory operating expenses	23,547,486	9,461,054
Factory Materials & Consumables	5,475,574	17,264,704
Motor Vehicle & Generator Fuel	15,511,618	9,608,900
Electricity	28,873,021	40,047,808
Factory running expenses	14,495,773	22,637,155
Fuelwood	28,998,451	-
Less Closing Stock	(122,291,937)	(49,466,527)
	<b>377,003,502</b>	<b>437,464,637</b>
<b>2 (c) Administrative Expenses</b>		
Advertising Marketing & Publicity	2,439,270	17,125,213
Bank charges	231,200	521,931
Insurance	3,188,096	3,092,592
Other administrative expenses	42,446,224	41,338,348
	<b>48,304,789</b>	<b>62,078,084</b>
<b>2 (d) Other Operating expenses</b>		
Light & Water	259,042	535,551
Repairs & Maintenance	249,772	34,800
Security	1,749,569	2,185,121
Depreciation	52,999,807	50,413,041
	<b>55,258,190</b>	<b>53,168,512</b>
	<b>103,562,979</b>	<b>115,246,596</b>
<b>2 (e) Employment Expenses</b>		
Salaries and wages	46,432,388	34,539,653
	<b>46,432,388</b>	<b>34,539,653</b>
<b>2 (f) Finance Costs</b>		
Interest on EADB Loan	-	14,225,111
	<b>-</b>	<b>14,225,111</b>
<b>2 (g) Other income</b>		
Interest Income	-	498,356
Exchange Gain/ (Loss)	2,716,804	19,366,548
	<b>2,716,804</b>	<b>19,864,905</b>

Exchange gain relates to changes in value in sales denominated in US dollars when converted to Kenya shillings.

**Note 3**

	Land	Work-in-Progress	Factory Buildings	Factory Machinery	Furniture & Fixtures	Office Equipment	Computers & Assessories	Motor Vehicles	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<b>Cost</b>									
As at 1st Jul 2015	8,044,682	-	452,542,378	475,161,930	3,749,997	1,204,795	12,158,841	43,447,750	996,310,373
Transfer from Nyayo Tea Zone									-
Additions	-	-	-	2,810,344	-	-	63,800	24,918,000	27,792,144
Disposal									-
<b>'30 Jun 2016</b>	<b>8,044,682</b>	<b>-</b>	<b>452,542,378</b>	<b>477,972,274</b>	<b>3,749,997</b>	<b>1,204,795</b>	<b>12,222,641</b>	<b>68,365,750</b>	<b>1,024,102,516</b>
<b>Acum Deprn 1st Jul 2015</b>	<b>-</b>	<b>-</b>	<b>42,500,076</b>	<b>124,469,894</b>	<b>2,343,748</b>	<b>1,204,795</b>	<b>11,429,508</b>	<b>27,089,430</b>	<b>209,037,450</b>
Charge for the year	-	-	9,050,848	31,785,156	468,750		385,933.33	11,309,120	52,999,807
On Disposal									-
<b>'30 Jun 2016</b>	<b>-</b>	<b>-</b>	<b>51,550,923</b>	<b>156,255,050</b>	<b>2,812,498</b>	<b>1,204,795</b>	<b>11,815,441</b>	<b>38,398,550</b>	<b>262,037,257</b>
<b>Net Book Value</b>									
<b>'30 Jun 2016</b>	<b>8,044,682</b>	<b>-</b>	<b>400,991,455</b>	<b>321,717,224</b>	<b>937,499</b>	<b>-</b>	<b>407,200</b>	<b>29,967,200</b>	<b>762,065,261</b>
<b>30th June 2015</b>	<b>8,044,682</b>	<b>-</b>	<b>410,042,303</b>	<b>350,692,036</b>	<b>1,406,249</b>	<b>-</b>	<b>729,333</b>	<b>16,358,320</b>	<b>787,272,924</b>
<b>2014/2015</b>									
	Land	Work-in-Progress	Factory Buildings	Factory Machinery	Furniture & Fixtures	Office Equipment	Computers & Assessories	Motor Vehicles	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<b>Cost</b>									
As at 1st Jul 2014	8,044,682	22,353,885	452,542,378	450,743,814	3,749,997	1,204,795	11,064,841	37,614,950	987,319,342
Transfer to Machinery		(22,353,885)		22,353,885					-
Additions	-	-	-	2,064,231	-	-	1,094,000	5,832,800	8,991,031
Disposal									-
<b>30th Jun 2015</b>	<b>8,044,682</b>	<b>-</b>	<b>452,542,378</b>	<b>475,161,930</b>	<b>3,749,997</b>	<b>1,204,795</b>	<b>12,158,841</b>	<b>43,447,750</b>	<b>996,310,373</b>
<b>Acum Deprn 1st Jul 2014</b>	<b>-</b>	<b>-</b>	<b>33,449,228</b>	<b>92,871,626</b>	<b>1,874,998</b>	<b>963,836</b>	<b>11,064,841</b>	<b>18,399,880</b>	<b>158,624,409</b>
Charge for the year	-	-	9,050,848	31,598,268	468,750	240,959	364,666.67	8,689,550	50,413,041
On Disposal									-
<b>30th Jun 2015</b>	<b>-</b>	<b>-</b>	<b>42,500,076</b>	<b>124,469,894</b>	<b>2,343,748</b>	<b>1,204,795</b>	<b>11,429,508</b>	<b>27,089,430</b>	<b>209,037,450</b>
<b>Net Book Value</b>									
<b>30th Jun 2015</b>	<b>8,044,682</b>	<b>-</b>	<b>410,042,303</b>	<b>350,692,036</b>	<b>1,406,249</b>	<b>-</b>	<b>729,333</b>	<b>16,358,320</b>	<b>787,272,924</b>
<b>30th June 2014</b>	<b>8,044,682</b>	<b>22,353,885</b>	<b>419,093,150</b>	<b>357,872,189</b>	<b>1,874,998</b>	<b>240,959</b>	<b>-</b>	<b>19,215,070</b>	<b>828,694,934</b>

**NOTES TO THE ACCOUNTS -Continued**

	2015/2016 Kshs	2014/2015 Kshs
<b>4. Inventories</b>		
Finished Tea at Mombasa Warehouse	92,779,515	27,676,000
Finished Tea at Kipchabo Factory	18,693,207	11,127,740
Fuelwood at Kipchabo factory	10,146,780	3,364,760
Other Inventories	672,435	7,298,027
	<b>122,291,937</b>	<b>49,466,527</b>
<b>5. Cash &amp; Cash Equivalents</b>		
KCB Current Account	3,573,539	15,445,473
CFC Stanbic Bank	2,126,309	69,871,062
Mpesa Cash Account	2,364,503	-
KCB Fixed Deposit	1,000,000	1,000,000
	<b>9,064,351</b>	<b>86,316,536</b>
<b>6. Trade Receivables</b>		
Trade Debtors	51,258,075	46,364,826
Other Debtors	23,194,730	24,067,578
	<b>74,452,805</b>	<b>70,432,405</b>
<b>7. Trade and other Payables</b>		
Trade Payables	1,594,451	15,267,439
Nyayo Tea Zones Creditors	101,140,808	159,450,152
Green Leaf Creditors - Outgrowers	28,085,264	10,240,298
Accruals	11,597,597	19,941,923
	<b>142,418,120</b>	<b>204,899,811</b>
<b>8. Shareholders Funds</b>		
Authorised No. of Shares - 5,000 Shares		
Type of Shares - Ordinary Shares		
Par value per Share Ksh. 20 each		
Total No. of Shares Subscribed - 5,000 Shares		
Value of subscribed Shares - Ksh 100,000	100,000	100,000
Share Premium	809,171,518	809,171,518
Deficit brought forward	(20,682,939)	(58,678,732)
Profit / (Loss) for the year	36,867,654	37,995,794
	<b>825,456,234</b>	<b>788,588,579</b>

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

Ref. NTZDC/158/2015/2016/ (17)

04 April, 2017

**Michael R. Sialai, EBS**  
Clerk of the National Assembly,  
Parliament Buildings,  
P.O. Box 41842 – 00100,  
**NAIROBI.**

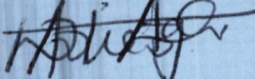
Dear Mr. Sialai,

### **REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF NYAYO TEA ZONES DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2016**

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I transmit the report of the Auditor-General on the examination and audit of the financial statements of Nyayo Tea Zones Development Corporation for the year ended 30 June 2016 in accordance with the provisions of Article 229(7) of the Constitution of Kenya for the necessary action as required by Article 229(8) of the Constitution.

Yours sincerely,

  
**William O. Agunda**  
**For: AUDITOR-GENERAL**

Copy to: The Principal Secretary,  
The National Treasury,  
P.O. Box 30007-00100,  
**NAIROBI.**