



OFFICE OF THE AUDITOR-GENERAL

*Paper Laid on the
Table of the House
by the Leader of
the Majority Party on
Wednesday 22nd August
2018 (Afternoon)*



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NEW KENYA CO-OPERATIVE
CREAMERIES LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2017**

PARLIAMENT
OF KENYA
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NEW KENYA CO-OPERATIVE CREAMERIES LTD

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

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New Kenya Co-operative Creameries Ltd

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I. KEY ENTITY INFORMATION

Background information

On 24 June 2003, New Kenya Co-operative Creameries (NKCC) Limited was registered under the Co-operative Societies Act to facilitate the takeover of all assets, business, control and management of Kenya Co-operative Creameries (KCC) 2000 Limited. On the 19 November 2004, NKCC Limited was incorporated under the Companies Act with 100% Government of Kenya Shareholding to take over the business from NKCC the Co-operative Society.

Principal Activities

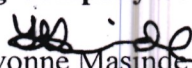
The company's principal activity is buying, processing, selling and distribution of milk and milk products.

Directors

The Directors who served the entity during the year/period were as follows:

- | | | | |
|-----|---------------------------|-------------------|---|
| 1. | Hon.Matu Wamae | - Chairman | - Re-appointed on 1 st January 2017 |
| 2. | Mr.Nixon Sigey | - Chief Executive | - Appointed on 1 st January 2015 |
| 3. | Dr. Kamau Thugge | | - Appointed on 28 th June 2013 |
| 4. | Ms. Jane Wambugu | | - Alternate to <i>PS –Treasury</i> |
| 5. | Mr Ali N Ismail (CBS) | | -Appointed 24 th November 2015. |
| 6. | Mr.E. M. Irungu(OGW) | | -(Alternate to <i>PS-Industrialization</i> . Replaced on 8 th December 2016. |
| 7. | Mr.Andrew B. Mbwi(HSC) | | - Alternate to <i>PS-Industry, Trade and Cooperatives</i> (Appointed on 8 th Dec 2016) |
| 8. | Mr.Julius Kiptarus | | -Alternate to <i>PS-Livestock</i> |
| 9. | Ms.Mary Muttai | | -Appointed 17 th April 2015 |
| 10. | Mr.Paul Kipkorir Mutai | | -Appointed 17 th April 2015 |
| 11. | Mr.Erastus Nyaga Nthuraku | | -Appointed 17 th April 2015 |
| 12. | Mr.Yasir Noor | | -Appointed on 17 th April 2015.Resigned on 28 th February 2017. |
| 13. | Dr. Christopher Ayienda | | -Appointed 17 th April 2015 |

Ag Company Secretary


Yvonne Masinde
P.O. Box 30131-00100
Nairobi

New Kenya Co-operative Creameries Ltd

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Registered Office

L.R. NO. 209/6849
DAKAR ROAD, OFF ENTERPRISE ROAD
INDUSTRIAL AREA
P.O.BOX 30131-00100
NAIROBI.

Corporate Headquarters

CREAMERY HOUSE
DAKAR ROAD, OFF ENTERPRISE ROAD
INDUSTRIAL AREA
P.O.BOX 30131-00100
NAIROBI

Corporate Contacts

Telephone: +254 020 3980000
E-mail: info@newkcc.co.ke
Website: www.newkcc.co.ke

Corporate Bankers

1. Co-operative bank of Kenya limited
Industrial Area Branch.
Nanyuki road
P.O. Box 18119- 00500
Nairobi.
2. Kenya commercial bank limited
Industrial Area Branch.
P.O. Box 18031-00500
Nairobi.
3. Standard chartered Bank of Kenya Limited
Industrial Area Branch.
P.O. Box 18081-00500
Nairobi.
4. CFC Stanbic bank limited
Industrial Area Branch.
P.O. Box 30550-00100
Nairobi.
5. Equity Bank Ltd,
Enterprise Branch,
P.O. Box 41895-00100,
Nairobi.

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Independent Auditors

Auditor General
Office of Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya





Principal Legal Advisers

1. Mereka & co. Advocates
Ukulima co-op house 7th floor
PO.Box 41620-00100
Nairobi.
2. J. M. Njenga & co. Advocates
Teleposta towers (GPO) 5th floor
P.O. Box 1297-00100
Nairobi.

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II. THE BOARD OF DIRECTORS

 <p>HON. ELIUD MATU WAMAE- CHAIRMAN</p>	<p>Hon. Eliud Matu Wamae, EBS was first appointed Chairman of the Board of Directors of New Kenya Cooperative Creameries Limited on 1st January 2005, a position he holds to date.</p> <p>Hon. Matu Wamae worked as an Auditor with the Government of Kenya from 1963 -1964, rising to become an Assistant Director of Audit in 1965 -1966. He also served as Director of Audit – East African Community and General Manager at the Central Bank of Kenya from 1968 to 1969 and as Executive Director for the Industrial and Commercial Development Corporation from 1970 to 1979.</p> <p>Hon. Matu Wamae holds a BA (Hons) in Economics from the University of New Delhi, India and is a successful businessman managing a group of companies.</p>
 <p>MR.NIXON SIGEY</p>	<p>Mr. Nixon Sigey was appointed as Managing Director of New Kenya Co-operative Creameries Ltd. on January 1st 2015.</p> <p>Mr. Sigey has over twenty-two (22) years working experience in Public Service, ten (10) of which have been in Senior Management.</p> <p>Mr. Sigey hold a Master's Degree in Business Administration.</p>
 <p>DR. KAMAU THUGGE, EBS</p>	<p>Dr. Kamau Thugge is the Principal Secretary at the National Treasury. Prior to his appointment, Dr. Thugge served as an economic advisor to the National Treasury and before that as Director of Economic Affairs at the National Treasury. Dr. Thugge, also worked with the IMF from 1985 to 2004.</p> <p>Dr. Thugge holds a Doctorate in Economics from the Johns Hopkins University.</p>
 <p>MR. ALI NOOR ISMAIL, CBS</p>	<p>Mr. Ali Noor Ismail, CBS, is the Principal Secretary, State Department for Co-operatives, Ministry of Industry, Trade and Co-operatives. He was previously the Principal Secretary Ministry of Labour, Social Security and Services.</p> <p>Prior to his appointment, Mr. Noor Ismail served as the Deputy Managing Director, Business Support Services at National Bank of Kenya and has also served in various capacities in both the Private and Public Sector including as Board Member at the National Environmental Management Authority and National Bank Staff Pension Scheme as well as Chairman of the Executive Council of Kenya Institute of Bankers among others. Mr. Ali Noor holds an MSc Degree in Human Resource Development from the University of Manchester, UK as well as B.A and LLB Degrees from The University of Nairobi.</p>



**MR. EDWARD MWANGI
IRUNGU**

Mr. Edward Mwangi Irungu is an Alternate Director of New Kenya Co-operative Creameries Ltd representing the Principal Secretary Industry, Trade and Cooperatives (State Department of Cooperatives). He was appointed in 2006 by the then Principal Secretary, Ministry of Co-operative Development and Marketing, Mr. Patrick Khaemba.



MR. ERASTUS NTHURAKU

Mr. Erastus Nthuraku was appointed to the New KCC Ltd. Board of Directors in April 2015 where he serves as Chairman of the Technical Sub-Committee.

Mr. Nthuraku has over 30 years of experience in the education sector and has served in various capacities along the dairy value chain in the country.

Mr. Nthuraku has served as Chairman of Mkulima Bora Dairy Co-op Society and Vice secretary of KEM Dairy Farmers Federation. He was also chairman of the Extension Committee of Runyenjes' Dairy Farmers and the ASDSP Committee Member serving Embu County's Dairy Value Chain implementation and monitoring between 2013 and 2015.



**DR. CHRISTOPHER
MAKWORO AYIENDA**

Mr. Christopher Ayienda was appointed to New KCC Board of Directors on 17th April 2015.

Mr. Ayienda has over 30 years of work experience and is a Senior Lecturer with a PhD in Educational Research and Human Resource Management.



MR. PAUL KIPKORIR MUTAI


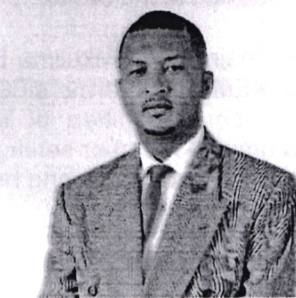


Mr. Paul K. Mutai was appointed to the New KCC Ltd. Board of Directors on 17th April 2015.

He has over 33 years of experience in the education sector having worked in primary and secondary schools as well institutions of higher learning where he was a lecturer until his retirement.

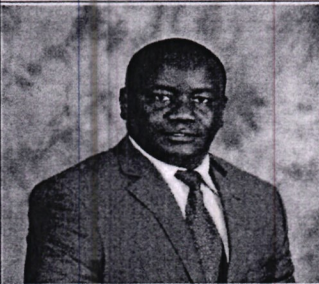



Mr. Mutai holds a Master's Degree in Education.

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 <p>MS. MARY JELEGAT MUTTAI</p>	<p>Ms. Mary J. Muttai was appointed to the New KCC Ltd. Board of Directors on 17th April 2015. She has worked in the education sector as a primary school teacher from 1977 to 1984 and thereafter as Tutor in the Teacher Advisory Center from 1984 to 1986. She also served as an Inspector of Schools between 1986 and 2004. Ms. Mutai has since 2011 served as Chairperson of Trans Nzoia County FEP Group of Companies and is a director and proprietor of Legacy Schools, a private school based in Kitale since 2001. Ms. Mutai holds a diploma in Counselling.</p>
 <p>MR. YASIR MOHAMED NOOR</p>	<p>Mr. Yasir Noor was appointed to the New KCC Ltd. Board of Directors on 17th April 2015. Prior to his appointment, Mr. Noor worked as the Operations Manager with Trident Aviation from 2010 to 2011. He has worked as a Project Manager with Jazz agencies from 2012 to 2014 and thereafter as the CEO of Digiplus Designs. Mr. Noor is currently a director with Shikara Limited and a partner at Alhabib Construction. Mr. Noor is a university degree holder with a bias towards Project Management</p>
 <p>MR. ANDREW BUNDI MBWI, HSC</p>	<p>M. Andrew Bundi Mbwi, HSC was appointed alternate Director to the New KCC Board of Directors on 8th December 2016 representing PS Industry, Trade and Cooperatives (State Department of Cooperatives) Mr. Mbwi has over 35 years of Audit experience in the public sector having served as Director of Co-operative Audit Services in the State Department of Co-operatives, at the Ministry of Industry, Trade and Co-operatives. Mr. Mbwi is a holder of a BSc. degree in mathematics, statistics and Econometrics from the University of Nairobi and also holds a Post-graduate Diploma in public accounting and auditing (PAA) from the Chartered Institute of Public Finance and Accounting (CIPFA), UK. Mr. Mbwi is a member of the Institute of Internal Auditors and was in 2009 awarded with a Head of State Commendation (HSC) for distinguished public service.</p>
 <p>MR. JULIUS KIPTARUS</p>	<p>Mr. Julius Kiptarus is an alternate Director of New KCC Ltd following his appointment in 2006 by the then Principal Secretary, Ministry of Livestock and Fisheries Development. He has over thirty (30) years' experience in Livestock Development, Policy Formulation, Leadership and Management. Mr. Julius Kiptarus hold a Bachelor's Degree from University of Nairobi and Master Degree from Wageningen Agricultural University, Netherlands.</p>

III. MANAGEMENT TEAM

Name of the Staff	Responsibility
 <p>MR. NIXON SIGEY</p>	<p><u>CHIEF EXECUTIVE OFFICER/ MANAGING DIRECTOR</u></p> <p>Mr. Nixon Sigey born on 1st January 1970 was appointed as Managing Director of New Kenya Co-operative Creameries Ltd. on January 1st 2015 with over twenty-two (25) years working experience in Public Service, ten (13) of which have been in Senior Management.</p> <p>Mr. Sigey hold a Master of Business Administration (Strategic Management), Bachelor of Science degree (Animal Production) and is currently pursuing a PhD in Business Management</p>
 <p>MR.SAMUEL ICHURA</p>	<p><u>CHIEF MANAGER FINANCE</u></p> <p>Mr. Ichura born on 6th November 1977 and holds a Master of Business Administration (Corporate Management) and a Bachelors' Degree in Business Administration (Finance Option). He is a Certified Public Accountant – CPA (K) and Certified Internal Systems Auditor (CISA).</p> <p>Mr. Ichura has over 15 years work experience in Internal Audit and Finance.</p>
 <p>MR. PETER OMBATI</p>	<p><u>CHIEF MANAGER LEGAL</u></p> <p>Mr. Ombati was born in 1966 and holds a Bachelor of Arts degree and a Bachelor of Laws Degree. He also holds a Diploma in Law and is a Certified Public Secretary - CPS (K).</p> <p>Peter has over 20 years' experience as a legal officer and a company secretary.</p>
 <p>MS.DAMARIS CHIRCHIR</p>	<p><u>CHIEF MANAGER FACTORY OPERATION</u></p> <p>Ms. Chirchir was born on 8th August 1962 and holds a Master of Business Management and Bachelor of Science Degree in Food Science and Technology.</p> <p>She is a Certified ISO Auditor with over 25 years' working experience in factory operations.</p>

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 <p>DR. MAGDALENE MUTHOKA</p>	<p><u>CHIEF MANAGER HUMAN RESOURCE & ADMINISTRATION</u></p> <p>Dr. Muthoka born on 31st December 1973 and holds a PhD. (Human Resource Management), Master of Science (Human Resource Management), Bachelor of Commerce degree (Accounting Option) and Post Graduate Diploma in Human Resource Management and has also undertaken CPA (III-5).</p> <p>Ms. Muthoka has over twenty (20) years' experience in Human Resource Management and Finance.</p>
 <p>MR. JAMES GATERU</p>	<p><u>CHIEF MANAGER SALES AND MARKETING</u></p> <p>Mr. Gateru holds a Master of Business Administration Degree in Strategic Management and a Bachelor of Commerce Degree (Business Administration Option).</p> <p>He also holds a Practitioners Diploma in Sales & Marketing and Certified Public Accountant - CPA (I).</p> <p>James is currently pursuing a doctorate in Strategic Management.</p>
 <p>MR. DOMINIC MENJO</p>	<p><u>CHIEF MANAGER RAW MILK PROCUREMENT & EXTENSION SERVICES</u></p> <p>Mr. Menjo born in 1967 holds a Master of Science Degree (Animal Production) and a Bachelor of Science degree in Animal Production. He also holds a Diploma in Animal Health and a Diploma in Dairy Farming, Technology and Management. Menjo has over 15 years' experience in Dairy farming and the NGO sector.</p>
 <p>MR. SAMUEL ONYANGO</p>	<p><u>HEAD OF ICT</u></p> <p>Eng. Onyango was born on 22nd June 1977 and holds a Bachelor of Science degree in Electrical & Electronic Engineering and is currently pursuing a Master of Business Administration from London School of Business.</p> <p>Eng. Onyango is a Qualified Enterprise Resource Planning Applications expert (Sage ACCPAC, Systems Applications Product SAP), ITIL v3 (Information Technology Infrastructure Library), CCNA (Cisco Certified Network Associate) and Certified Project Manager (Prince).</p> <p>Sam has over 15 years' experience in information communication and technology.</p>
 <p>MS. STACY TOO</p>	<p><u>HEAD OF CORPORATE AFFAIRS</u></p> <p>Ms. Stacy Too was born on 15th November 1970 and holds a Bachelor's Degree in Public Administration and Social Work.</p> <p>Ms. Too also has a Practitioner's Diploma in Marketing as well as a Diploma in Personnel Management & Industrial Relations.</p>



**MS. EMILLIE ADHIAMBO
MUGENI**

HEAD OF QUALITY ASSURANCE

Ms. Mugeni was born on 20th September 1957 and holds a Bachelor of Science Degree in Food Science & Technology and a Certificate of Dairy Technology from Denmark.

She is a Certified ISO Lead Auditor and currently pursuing a Master of Business Administration degree in Project Management.



MR. MARUSOI BURG OH

**AG. CHIEF MANAGER INTERNAL AUDIT & RISK
COMPLIANCE**

Mr. Marusoi Burgoh was born on 11th October 1979 and holds a Bachelor of Commerce Degree (Accounting Option).

He is a Certified Public Accountant with over ten (10) years of experience in Internal Audit.



ENG. PETER KIBOI

HEAD OF ENGINEERING

Eng. Peter Kiboi was born on 2nd August 1962 and holds a Bachelor of Science degree in Electrical Engineering as well as a Certificate in Total Maintenance Management from SIDA.

Eng. Kiboi has over 30 years' experience in plant engineering and is currently pursuing a Master of Science degree in Energy Management



**MR. JAMLECK THUO
MWANGI**

HEAD OF PROCUREMENT

Mr. Jamleck Mwangi was born in 1970 and holds a Bachelor of Arts degree and Master of Science degree in Procurement and Logistics.

Mr. Mwangi holds a professional diploma in CIPS and has over twenty (20) years' experience in supply chain management.

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IV. CHAIRMAN'S STATEMENT

Delivering value to our dairy farmers

On behalf of the Board of Directors, I am greatly honoured to present to you the Annual Report and Financial Statements of the New Kcc Limited for the Fiscal Year ended 30th June, 2017. This was a year characterised by major developments and challenges.

The company has remained focused on delivering on its core mandate and we are pleased to report that the company remains profitable with a growing sales turnover of over Kshs 9.4 billion.

The company's ability to report positive results despite the challenges underscores our resilience and ability to adapt in spite of prevailing circumstances and we expect even better results in the coming financial year as we modernize our factories and plants as well as the management systems.

Delivering Quality and Value

We have continued to make significant strides in our effort to boost milk intake through extension services and training of our farmers. Despite the prolonged drought experienced in the country in the year under review, New Kcc processed over 83 Million liters of milk and made payments to farmers totalling over Kshs 3.2 billion.

With the purchase and installation of new UHT machinery in Eldoret factory and the continued modernization of the other factories in the coming financial year, New Kcc will be able to process over 1 million liters of milk daily.

We continue to invest in our continued close partnership with dairy farmers to enable them produce and market quality milk. To that end, the company organized a series of workshops and forums aimed at providing farmers with the avenue to receive training and related services on best dairy practices both locally and abroad. In June 2017, New Kcc arranged for a farmer's exchange program in Israel which saw the company through its Extension Services Fund facilitate 75 of its dairy farmers drawn from the various milk producing regions visit dairy firms in the region and learn more on best practices in animal management and feeding.

Looking ahead

The Company's continued growth and success in the years to come calls upon all the stakeholders to work together in close partnership to write the next chapter of the New Kcc Ltd success story.

On behalf of the Board of Directors and Management of New Kcc Ltd I would like to thank our farmers, customers and well-wishers for their continued partnership and support.

I would also like to acknowledge the guidance, leadership and support we continue to receive from the various Government Ministries and most especially the Ministry of Industrialization and Co-operatives Development.



Hon. Matu Wamae, EBS
Chairman

V. REPORT OF THE MANAGING DIRECTOR

Background

In the 2016/2017 Financial Year, the company continued to make concerted efforts to put our customers at the centre of all our decision-making and in so doing emphasized aligning our business strategies to ensure that we remained focused on meeting our customers' demands and remaining competitive through competitive raw milk pricing, product innovation, strategic capital investments and provision of quality milk and milk products to our diverse customer base.

Staying Ahead

I am pleased to announce for the year under review, the Company posted a pre-tax profit of over Kshs 180 Million and a sales turnover of over Kshs 9.4 billion marking a 9% growth revenue from previous year reporting.

The 2016/2017 FY year was one of 'many firsts', with the Company making good in its investment towards the upgrading and refurbishing its existing equipment in its processing factories and improving on its packaging technology. New KCC re-opened the doors at its UHT Factory in Eldoret with the commissioning an ultra- modern UHT processing unit at an event that was presided over the by President following the National Government's billion-shilling investment towards KCC's modernization and upgrade project. This saw to the expansion of the company's long life processing capacity with installation of TFA machine, UHT and TBA....

In addition, works have already been completed at Dandora Factory Complex, Sotik and Nyahururu Factories, where we have initiated contacts for modernization.

We are especially pleased with the fruition of the Government's pledge to settle old debts owed to KCC farmers. By close of the year under review, a total of Kshs 350M out of the Kshs 500M set aside for debt payment had been successfully disbursed.

The successful commissioning of the UHT Processing unit at Eldoret Factory has seen us re-introduce the timeless UHT Brand and TFA in addition is the introduction of 250ml in new packaging as well as our famous flavored milk 'SHAKE' further adding on our exciting range of long life products.

Since the launch of the Lipa na Mpesa Platform, that in the first year alone registered over 25% of our sales transactions, we are pleased to report that this figure has continued to recorded an upward growth further underscoring our customers' embrace of the convenient payment platform.

Our processing facilities remain ISO 22000:2005 certified for Food Safety Management Systems, underscoring our commitment to maintain these internationally recognized standards in all our processing factories and continue to deliver quality products to all our customers.

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We note the less than favorable weather conditions especially in the latter half of the year in which we experienced an extended dry spell that adversely affected milk intake for all players in the dairy industry. The company received and process over 83 million litres of quality raw milk, registering a drop from the previous year owing to the harsh weather conditions, however we were still able to make payments of over Kshs 3 Billion to our over 60,000 farmers, who we continue to support.

Our customer interaction supported by an active online social media presence via Facebook, Company website and twitter handle continue to enhance our customers' experience, as we endeavor to deliver quality service and products on time and at all times. The Company also engaged in various corporate social responsibility (CSR) programs to give back to the society both in cash and in-kind to worthy causes in areas of education, environmental preservation, health and sports.

We note with appreciation and gratitude, the timely release of funds as promised by the government towards release of milk powder into the national strategic food reserves as well as the ongoing and completed modernization projects as highlighted, which underscore the National Government's confidence in the viability and continued growth and success of New KCC.

Gratitude

I remain proud of the continued support from all our stakeholders, both within and without the company, whose cooperation and commitment has proved invaluable to our continued success. I am particularly grateful for the support that we have received from the National Government, whose support will prove a key factor in the realization of New KCC's strategic goals. I also wish to acknowledge support from various county governments, our parent Ministry, Board of Directors, Management and Staff of New KCC whose dedication and commitment were instrumental in the Company's positive showing.

Firm in our vision as market leaders and with a dedicated and well trained and workforce to boot, we will continue employ innovativeness and bias towards new technology in working towards greater efficiency in all our areas of operation and delivery of world class products to all.

Thank you.


Mr. Nixon Sigey

MANAGING DIRECTOR

VI. CORPORATE GOVERNANCE STATEMENT

PART A: Core Statements

Vision: To be the market leader in quality refreshing dairy products in East and Central Africa.

Mission: New KCC is committed to provide quality dairy beverage and food products and services that are of international standing through sustainable innovation and value chain management.

Core Values

- Integrity
- Loyalty
- Innovativeness
- Quality

PART B: Corporate Governance Statements

Introduction

New KCC understands the importance of good corporate governance to ensure maximum value for all its stakeholders, as well as maintaining our business integrity and stakeholder confidence.

In addition, the Company strives to act in accordance with the laws of Kenya and in full appreciation of the diversity of the Kenyan people.

It has in place a Code of Conduct which is in conformity with the highest standards of integrity, honesty and ethics, in its dealings with stakeholders including government, directors, employees, customers, suppliers and the society at large. It also clearly spells out the policies and guidelines regarding employees' personal conduct.

It is expected that at all times, the Board of Directors and Employees of New KCC will act with honesty, integrity, transparency and justice.

Board Makeup

The Board comprises nine members whose unique skills, knowledge and experience collectively contribute to the running of the company and corporate governance. Among them is the Chairman, who is appointed by the President and remaining directors who are appointed by the Cabinet Secretary, Ministry of Industry, Trade and Co-operatives, the Company's parent ministry.

The Board and its Role

The New KCC Board of Directors is mandated to provide clear definitions of the Company's objectives and values as a whole, ensuring that proper procedures and practices are put in place to protect the company's assets and reputation, and that at all times, their conduct is in line with their duties and responsibilities to the company.

The Board holds quarterly meetings with provisions for special board meetings whenever circumstances demand.

Board Committees

The State Corporations Act permits the Board to set up committees consisting of Board Members and Departmental Heads, who are tasked with assisting the Board in the execution of its duties and authorities, and as defined by the Board.

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These committees are:

- i) Human Resource Committee
- ii) Marketing & Logistics Committee
- iii) Audit Committee
- iv) Finance & General Purposes Committee
- v) Technical Committee

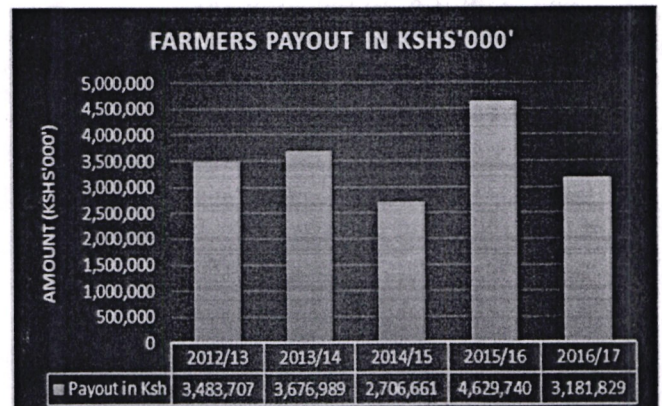
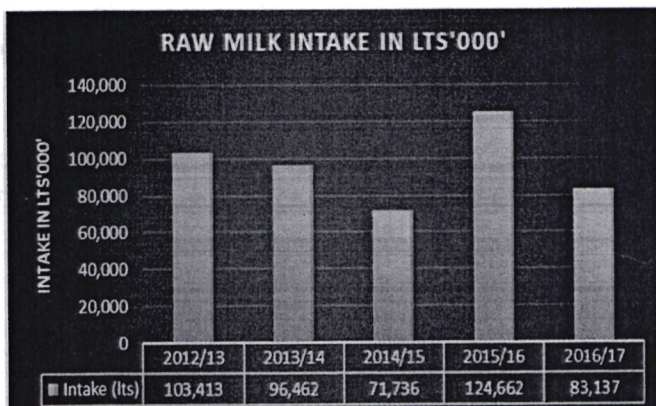
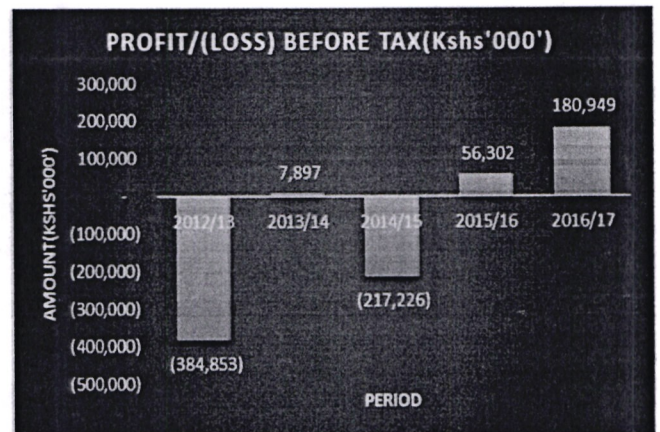
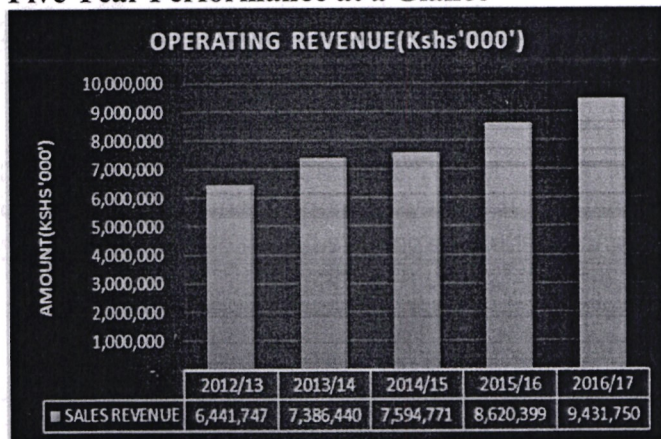
VII. MANAGEMENT DISCUSSION AND ANALYSIS

Industry Outlook

The industry has major economic benefits to the entire country not least of all playing a major role in helping the country meet the food security targets set under the Vision 2030. The industry also has a major role in ensuring rural development through the milk hubs and other dairy centres.

The year ended 30th June 2017 has been a challenging one to the company and the industry at large due to the draught experienced in the country. The company however managed to record a good performance despite all the challenges.

Five Year Performance at a Glance



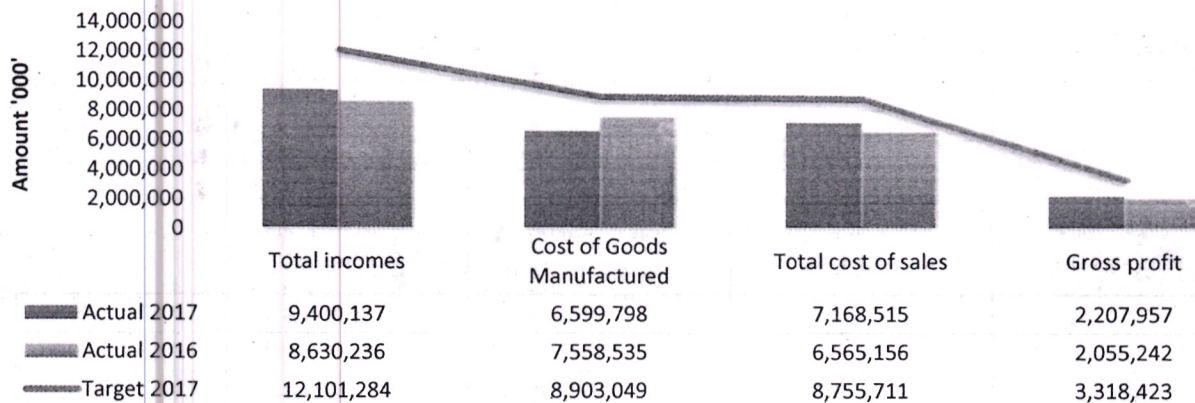
Key Highlights

The company registered Kshs. 180.9 Million pre-tax profit for the Twelve months of the year, a 221 % growth compared to the same period last year. Growth was mainly driven by growth in sales revenue and cost management strategies during the period.

However, it is evident that the company did not meet its set targets for the period under review and some of the causes of this are:

- i. The below target sales revenue.
- ii. High cost of raw milk.
- iii. Increased cost of production due to material price increase and reconstitution of powder milk.

Key Performance Highlights

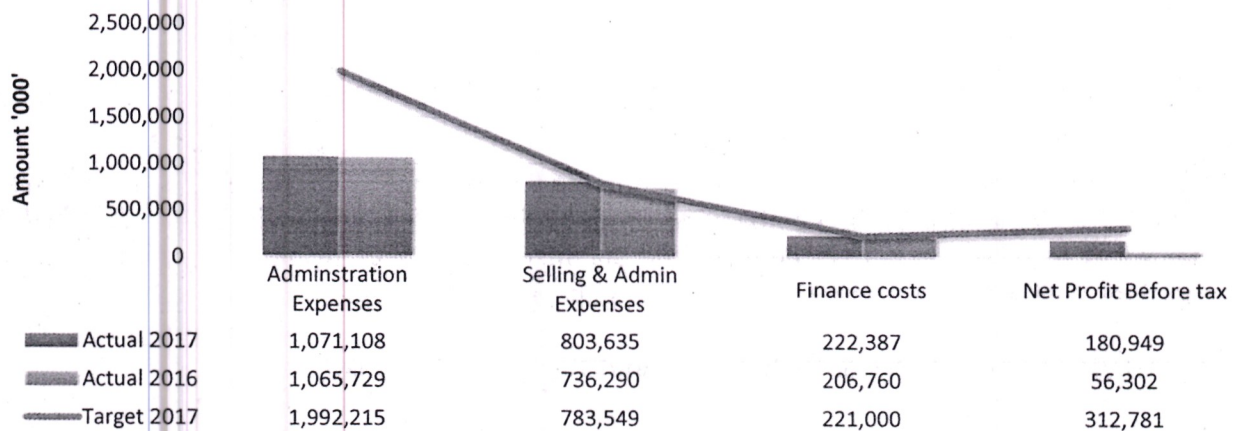


From the above, it is noted that the income of the company is below target by Kshs 2.7 billion. This is attributed the challenging operating environment in the industry due to competition. However, the performance was better than the previous year by Kshs 0.8 Billion.

The cost of sales this year was higher than the prior year due to high cost of reconstitution and recombination undertaken as occasioned by the draught experienced in the country.

Management was also able to manage the cost of production despite the high production experienced during the year. This is evident in the low cost of goods manufactured in 2017 as compared to 2016.

Operating Expenses & PBT



New Kenya Co-operative Creameries Ltd

Reports and Financial Statements For the year ended June 30, 2017

The company's operating expenses during the financial year were below target. This is attributed to continuous monitoring of the expenditure and the budget. Cost reduction initiatives initiated also contributed to this.

As compared to the previous year, the expenses have a marginal difference. The net profit before tax for the year was however high compared to the prior year by Kshs 124.6 Million.

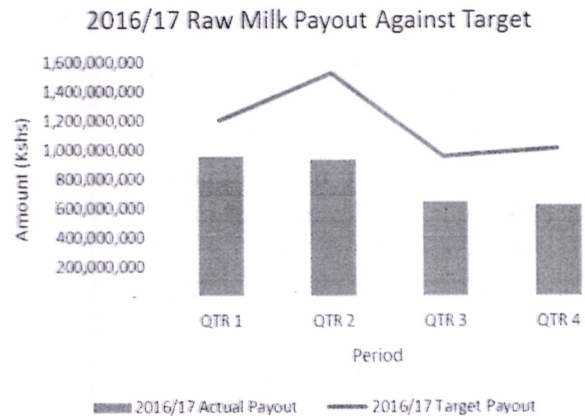
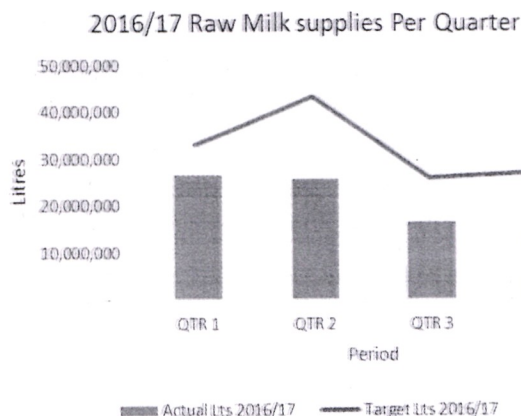
1. Analysis of Key Expenditures

3.1 Raw Milk

This is one of the key raw materials used by the company and it is the highest cost of production for the entity.

During the period ended 30th June 2017, raw milk supplied and the amount paid was as below:

Period	Actual Lts 2016/17	Target Lts 2016/17	2016/17 Actual Payout	2016/17 Target Payout	Actual Average cost/Litre
QTR 1	26,613,401	32,893,450	957,195,957	1,200,610,903	36
QTR 2	25,720,834	43,212,963	931,200,677	1,518,580,913	36
QTR 3	16,586,851	25,798,784	642,858,774	948,105,306	39
QTR 4	14,214,752	27,088,723	623,121,688	1,008,087,479	44
Total	83,135,838	128,993,920	3,154,377,095	4,675,384,601	38

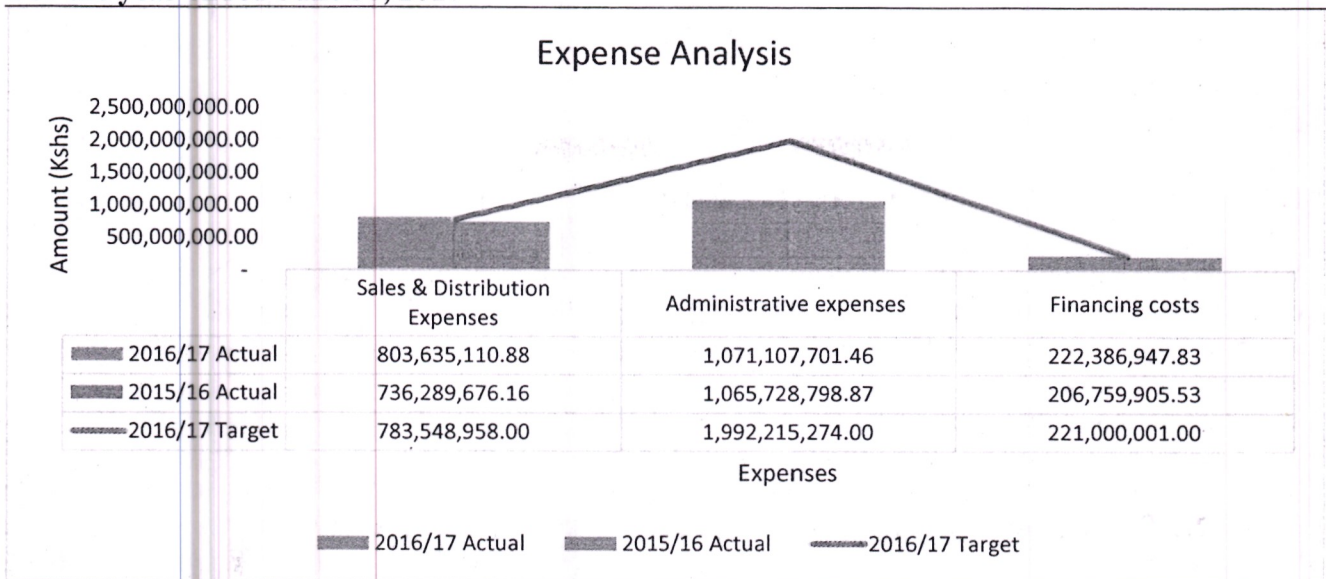


The raw milk supplied and the pay-out decreased in the last two quarters of the year due to the draught experienced in the country. The company reconstituted and recombined whole and skimmed milk powder so as to meet the market demand and stabilize milk prices in the country. This however increased the cost of production thereby decreasing the company margins.

3.2 Administration, Sales & Distribution and Financing Expenses

The above expenses have a great impact on the performance of the company. Cost management strategies effected ensured that these expenses were within the budget and continuous progress meant to bring the costs down are in place and the impact will have far-fetched positive results in the company's performance. Below is the analysis of these expenses for the period ended 30th June 2017:

Reports and Financial Statements
For the year ended June 30, 2017



From the above, it is evident that the expenses are marginally variable from the previous year's expenses. This has largely contributed to the increase in profit recorded in the current financial year. As compared to the budget, all the expenses are below the budget except for financing cost whose costs is largely driven by M-pesa charges due to the large transactions done through M-pesa.

We are however in the process of reviewing the Mpesa commission charges with Safaricom but the process is still ongoing. The commission was due to be reduced from 1.5% to 0.5% effective 1st May 2017.

Entity's compliance with statutory requirements

The Organization is fully compliant of all statutory obligations and there are no major compliance issues that may expose the company

Key projects and investment decisions the entity is planning/implementing

1.	ELDORET FACTORY
	(a) Supply, Installation and Commissioning of a sterilizer, Fillers CIP and Aseptic tank
	(b) Supply, Installation and commissioning of 250 mls Aseptic filling machine.
	(c) Supply, Installation and Commissioning of 500 mls Aseptic Filling machine (TFA) with Cardboard packer.
	(d) Supply, Installation and commissioning of 1000 mls Aseptic filling machine.
	(e) Supply, Installation and commissioning of 250 mls Aseptic filling machine.
2.	DANDORA FACTORY
	(a) Supply, installation and commissioning of Gable top Milk Filling machine.
	(b) Supply, installation of Bottle filling machine.
	(c) Supply, installation and commissioning of yoghurt cup filling machine.
	(d) Supply, installation and commissioning of Fermented Milk processing.
	SOTIK FACTORY
3.	(a) Supply, installation and commissioning of Aseptic Tetrahedron milk filling machine

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Since its registration in 2003, and in appreciation of its reach in virtually all parts of the country, New KCC has endeavoured to ensure it has integrated its business operations and guiding values, whereby the interests of all its stakeholders both internal and external are continually reflected in the company's policies and actions.

In acknowledging that our responsibility to our stakeholders goes beyond the boardroom, New KCC has been an active participant in initiatives aimed at improving the livelihoods of communities in which it operates, in the areas of environment, sports, health, humanitarian relief services, education and nutrition. To this end, the Company has extended both cash and in-kind support towards medical camps, sporting events, environmental clean-up exercises and food drives in times of national emergency.

Our aim: To make *life's goodness everyday*, a reality for all.



New KCC Staff take part in an environmental cleanup exercise in Mowlem Ward, which neighbours New KCC's Dandora Factory Complex



New KCC donated milk towards Free Medical Camp held in Kawangware, Nairobi County.



Children receiving school milk in Kilifi County

New Kenya Co-operative Creameries Ltd

**Reports and Financial Statements
For the year ended June 30, 2017**

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the company's affairs.

Principal activities

The company's principal activity is buying, processing, selling and distribution of milk and milk products.

Results

The results of the New Kcc Ltd for the year ended June 30, 2017 are set out on page 1-49. Below is summary of the profit or loss made during the year.

	Kshs
Profit Before Taxation	180,949,888
Taxation Charge	26,762,055
Profit after Taxation	207,711,943

Dividends

Subject to the approval of the shareholders, the Directors do not recommend the payment of dividends for the year.

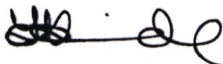
Directors

The members of the Board of Directors who served during the year are shown on page II.

Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Yvonne Masinde

Ag. Company Secretary

Nairobi

Date:.....

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

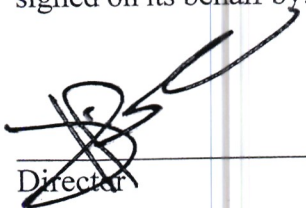
Section 81 of the Public Finance Management Act, 2012 and the Companies Act Chapter 486 require the Directors to prepare financial statements in respect of that company, which give a true and fair view of the state of affairs of the company at the end of the financial year/period and the operating results of the company for that year/period. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the company.

The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

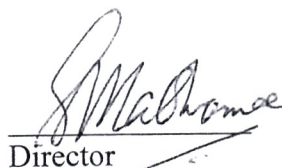
The Directors accept responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Companies Act chapter 486. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2017, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The Company's financial statements were approved by the Board on 28th SEPTEMBER 2017 and signed on its behalf by:



Director



Director

Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.oagkenya.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NEW KENYA CO-OPERATIVE CREAMERIES LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of New Kenya Co-operative Creameries Limited set out on pages 1 to 48, which comprise the statement of financial position as at 30 June 2017, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts 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.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the New Kenya Co-operative Creameries Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Non- Current Assets

As previously reported, property, plant and equipment balance of Kshs.2,125,360,155 as at 30 June 2017 had the following unresolved issues;

- i) Title documents for forty-nine (49) properties with a value of Kshs.1,906,927,500 whose title document were not availed for audit verification.

Report of the Auditor-General on the Financial Statements of New Kenya Co-Operative Creameries Limited for the year ended 30 June 2017

- ii) The property, plant and equipment balance of Kshs.2,125,360,155 excludes fifteen (15) parcels of land and buildings which have not been valued.
- iii) Sixteen (16) disputed properties with a value of Kshs.222,500,000 were registered in the name of third parties and the valuation report recorded Kshs.750,000,000 for the disputed properties.

The company has failed to disclose in the financial statements that the Ethics and Anti-Corruption Commission had cleared two disputed properties; LR No.37/371 and LR No.37/22 situated in Upper Hill, Nairobi which had legally been transferred to third parties.

- iv) Five (5) acres out of 32.94 acres (13.33 ha) of land LR No MN/VI/2860 on which Miritini factory is located have been encroached by squatters some of whom have already put up permanent structures thereby exposing the Company to likely loss of vital property.

In view of the foregoing, it has not been possible to confirm the valuation, ownership status and the security of properties and that property, plant and equipment balance of Kshs.2,125,360,155 as at 30 June 2017 is fairly stated.

2. Trade and Other Receivables

Trade and other receivables' balance stood at Kshs.1,762,200,310 as at 30 June 2016. However, the following anomalies were noted;

- i) Included in this balance are bounced cheques amounting to Kshs.32,645,313 which have been outstanding for over one year.
- ii) Further, included in this balance are staff debts amount of Kshs.21,006,909, out of which an amount of Kshs.9,355,033 relates to staff who have since left the Company although the amount has been fully provided for.
- iii) Included in this balance is an unreconciled and unexplained credit balance amounting to Kshs.28,663,393 in addition to the previous year's unreconciled credit balance of Kshs.45,958,477.

In the circumstances, it has not been possible to confirm the accuracy and recoverability of trade and other receivables balance of Kshs.1,762,200,310.

3. Trade and Other Payables

The trade and other payables' balance of Kshs.1,078,901,682 as at 30 June 2017 includes an amount of Kshs.26,447,283 which has remained outstanding for more

than two years. This casts doubt on the validity of the above transactions and the Company's ability to pay its debts as they fall due.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of New Kenya Co-operative Creameries Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section of my report, there were no other Key Audit Matters to report in the year under review.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to have the Company cease operations.

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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit 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 my opinion 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 of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I 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 my 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 and for the purpose of giving an assurance 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 management.
- Conclude on the appropriateness of the management's 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 to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue to sustain its services.
- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

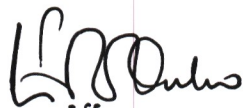
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

As required by the Companies Act, 2015 I report based on the 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, adequate accounting records have been kept by the Company, so far as appears from the examination of those records;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the accounting records; and
- (iv) In my opinion, the information given in the report of the directors is consistent with the financial statements.



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

Nairobi

11 July 2018

XII. STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2017 KShs	2016 KShs
REVENUES			
Sales	1	9,438,594,580	8,636,553,251
Other Income	3	10,012,749	15,948,844
TOTAL REVENUES		9,448,607,329	8,652,502,095
Cost of Sales		6,796,495,147	6,292,286,957
OPERATING EXPENSES			
Administration Costs	4	928,594,496	943,903,373
Selling and Distribution Costs	5	906,136,343	779,164,880
Depreciation of property, plant and equipment	12	425,107,626	418,861,513
Amortization of Intangible Assets	15	16,828,436	16,828,436
TOTAL OPERATING EXPENSES		2,276,666,902	2,158,758,091
OPERATING PROFIT/(LOSS)		375,445,281	202,979,047
Finance Income	7	20,015,522	9,246,731
Finance Costs	8	214,510,914	170,364,984
PROFIT/(LOSS) BEFORE TAXATION		180,949,888	40,338,795
INCOME TAX (EXPENSE)/CREDIT	9	26,762,055	569,087
PROFIT/(LOSS) AFTER TAXATION		207,711,943	39,769,708
Earnings per share – basic and diluted		3.80	0.72
Dividend per share		1.52	0.21

New Kenya Co-operative Creameries Ltd

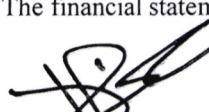
Reports and Financial Statements

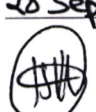
For the year ended June 30, 2017

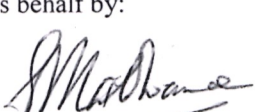
XIII. STATEMENT OF FINANCIAL POSITION

	Note	2017 Kshs	2016 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	12	2,125,360,155	2,025,594,502
Intangible assets	13	-	-
Leasehold Land	15	773,176,771	790,005,207
Freehold Land	14	150,000,000	150,000,000
Investments	16	6,456,475	6,456,475
Staff receivables due after one year			
Total Non-Current Assets		3,054,993,513	2,972,056,184
Current Assets			
Inventories	17	1,412,781,371	2,158,870,584
Trade and other receivables	18	1,762,200,310	1,482,520,265
Bank and cash balances	20	1,133,724,423	52,789,349
Total Current Assets		4,308,706,103	3,694,180,198
Total Assets		<u>7,363,699,615</u>	<u>6,666,236,382</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	21	547,028,870	547,028,870
Revaluation reserve		2,033,910,448	2,111,730,760
Fair value adjustment reserve			
Retained earnings		1,914,154,923	1,706,440,193
Proposed dividends			
Other reserves			
GOK Grant		770,000,000	300,000,000
Capital and Reserves		5,265,094,242	4,665,199,823
Non-Current Liabilities			
Borrowings	25	459,457,542	338,825,061
Deferred tax liability	26	(171,443,078)	(144,681,023)
Total Non-Current Liabilities		288,014,464	194,144,038
Current Liabilities			
Borrowings	25	184,592,184	125,499,553
Trade and other payables	27	1,078,901,682	772,144,303
Tax Payable	19	10,890,095	30,989,076
Bank Overdraft		469,859,343	798,172,824
Retirement benefit obligations/Gratuity	28	50,930,797	64,636,470
Provision for leave pay	29	15,416,810	15,450,295
Total Current Liabilities		1,810,590,911	1,806,892,521
TOTAL EQUITY AND LIABILITIES		<u>7,363,699,615</u>	<u>6,666,236,382</u>

The financial statements were approved by the Board on th 28 September 2017 and signed on its behalf by:


 Managing Director
 Name: Nixon Sigey


 Chief Manager Finance
 Name: Samuel Ichura
 ICPAK M/NO:4239


 Chairman of the Board
 Name: Hon. Matu Wamae

**Reports and Financial Statements
For the year ended June 30, 2017**

XIV. STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Revaluation reserve	Government Grant	Retained earnings	Proposed dividends	Total
At July 1, 2015	547,028,870	2,242,338,454	-	1,739,914,442	-	4,529,281,765
Transfer of excess depreciation on revaluation	-	(77,820,311)	-	-	-	(77,820,311)
Deferred tax on excess depreciation	-	(52,787,383)	-	-	-	(52,787,383)
Prior year Adjustment	-	-	-	(73,243,957)	-	(73,243,975)
Fair value adjustment on quoted investments	-	-	-	-	-	-
Total comprehensive income	-	-	-	39,769,708	-	39,769,708
Dividends paid – 2015	-	-	-	-	-	-
Interim dividends paid – 2016	-	-	-	-	-	-
Government Grant for the year	-	-	300,000,000	-	-	300,000,000
At June 30, 2016	547,028,870	2,111,730,760	300,000,000	1,706,440,193	-	4,665,199,822
At July 1, 2016	547,028,870	2,111,730,760	300,000,000	1,706,440,193	-	4,665,199,822
Issue of new share capital	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	(77,820,311)	-	-	-	(77,820,311)
Prior year Adjustment	-	-	-	2,787	-	2,787
Deferred tax on excess depreciation	-	-	-	-	-	-
Total comprehensive income	-	-	-	207,711,943	-	207,711,943
Dividends paid – 2016	-	-	-	-	-	-
Interim dividends paid – 2017	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-
Government Grant for the year	-	-	470,000,000	-	-	470,000,000
At June 30, 2017	547,028,870	2,033,910,449	770,000,000	1,914,154,923	-	5,265,094,242

New Kenya Co-operative Creameries Ltd

Reports and Financial Statements For the year ended June 30, 2017

XV. STATEMENT OF CASH FLOWS

	Note	2017 Kshs	2016 Kshs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	30(a)	1,574,695,351	(66,653,968)
Interest received	7	20,015,522	-
Interest paid	8	(214,510,914)	(170,364,984)
Dividends paid	30(e)	(-)	(-)
Taxation paid	9	(20,098,981)	(729,975)
Net cash generated from/(used in) operating activities		<u>1,360,100,977</u>	<u>(237,748,927)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	12	(600,577,532)	(208,907,660)
Proceeds from disposal of property, plant and equipment		-	-
Net cash generated from/(used in) investing activities		<u>(600,577,532)</u>	<u>(208,907,660)</u>
FINANCING ACTIVITIES			
Proceeds(Repayment) of borrowings	30(b)	179,725,112	116,696,957
GOK Grant		470,000,000	300,000,000
Net cash generated from/(used in) financing activities		<u>649,725,111</u>	<u>416,696,957</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,409,248,557	(29,959,519)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	30(c)	(745,383,477)	(715,423,958)
Effects of foreign exchanges rate fluctuations		-	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	30(c)	<u>663,865,080</u>	<u>(745,383,477)</u>

Reports and Financial Statements
For the year ended June 30, 2017

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30 JUNE 2017

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Explanation/Remarks
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	
	Kshs	Kshs	Kshs	Kshs	Kshs	
Revenue						
Sale of goods	12,074,133,624	-	12,074,133,624	9,438,594,580	2,635,539,044	Lower prices than budget due to increased competition.
Sale of services	-	-	-	-	-	
Transfers from the Government	-	-	-	-	-	
Donations in kind	-	-	-	-	-	
Finance Income	-	-	-	20,015,522	(20,015,522)	Income from short term deposits
Other income	27,150,600	-	27,150,600	10,012,749	17,137,851	Lower rent collection
Total income	12,101,284,224	-	12,101,284,224	9,468,622,851	2,632,661,373	Due to Lower sales Revenue
Expenses						
Compensation of employees	1,047,662,940	-	1,047,662,940	789,897,845	257,765,095	Within Budget
Use of goods and services	8,779,946,381	-	8,779,946,381	6,588,896,773	2,191,049,608	Lower intake of raw milk due to draught
Finance cost	220,800,002	-	220,800,002	214,510,914	6,289,088	Due to restructuring of Overdraft facility
Rent paid	-	-	-	-	-	
Taxation paid	-	-	-	-	-	
Other payments	1,483,318,644	-	1,483,318,644	1,220,108,443	263,210,201	Within Budget
Grants and subsidies paid	-	-	-	-	-	
Total expenditure	11,531,727,967	-	11,531,727,967	8,813,413,975	2,618,313,992	
Surplus for the period	569,556,257	-	569,556,257	655,208,876	14,347,381	

New Kenya Co-operative Creameries Ltd

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XVII. NOTES TO THE FINANCIAL STATEMENTS

A. GENERAL INFORMATION

New Kcc Ltd is established by and derives its authority and accountability from the Company's Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is buying, processing, selling and distribution of milk and milk products.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

B. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. 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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed.

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

The financial statements have been prepared in accordance with the PFM Act 2015; and Companies Act Cap 486, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

C. ADOPTION OF NEW AND REVISED STANDARDS

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard/Amendment to a standard	Effective date	Impact
IFRS 14 <i>Regulatory Deferral Accounts (issued in January 2014)</i>	1 st Jan 2016	The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral account balances, but requires certain disclosures.
Amendments to IFRS 11 titled <i>Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)</i>	1 st Jan 2016	The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for

Standard/Amendment to a standard	Effective date	Impact
		those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured).
Amendments to IAS 16 and IAS 38 titled <i>Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)</i>	1 st Jan 2016	The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.
Amendments to IAS 16 and IAS 41 titled <i>Agriculture: Bearer Plants (issued in June 2014)</i>	1 st Jan 2016	The amendments, define bearer plants – ie living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (e.g grape vines, rubber trees, oil palms) - and include them within IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41.
Amendments to IAS 27 titled <i>Equity Method in Separate Financial Statements (issued in August 2014)</i>	1 st Jan 2016	The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
Amendment to IAS 19 (<i>Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014</i>)	1 st Jan 2016	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

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Standard/Amendment to a standard	Effective date	Impact
Amendment to IFRS 5 <i>(Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014)</i>	1 st Jan 2016	The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued.
Amendment to IFRS 7 <i>(Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014)</i>	1 st Jan 2016	The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.
Amendments to IFRS 10, IFRS 12 and IAS 28 titled <i>Investment Entities: Applying the Consolidation Exception (issued in December 2014)</i>	1 st Jan 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
Amendments to IAS 1 titled <i>Disclosure Initiative (issued in December 2014)</i>	1 st Jan 2016	The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
<i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</i>	1 st Jan 2017	<p>The amendments clarify that:</p> <ul style="list-style-type: none"> • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. <p>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in</p>

Standard/Amendment to a standard	Effective date	Impact
		combination with other deferred tax assets of the same type.
<i>Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)</i>	1 st Jan 2017	The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 Disclosure of interests in other entities</i>	1 st Jan 2017	Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with <i>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</i>

New Kenya Co-operative Creameries Ltd

Reports and Financial Statements
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ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective Date	Impact
FRS 15 <i>Revenue from Contracts with Customers</i> (issued in May 2014)	1 Jan 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.
IFRS 9 <i>Financial Instruments</i> (issued in July 2014)	1 Jan 2018	<p>This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:</p> <ul style="list-style-type: none"> • IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. • o For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch • For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. • For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. • The derecognition provisions are carried over almost unchanged from IAS 39.

Standard	Effective Date	Impact
IFRS 16: <i>Leases</i> (issued in January 2016)	1 Jan 2019	The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2017.

D. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the company's activities as described below.

- i) **Revenue from the sale of goods and services** is recognized in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognized as Capital in the year in which the company actually receives such grants.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognized in the income statement on receipt.
- vi) **Other income** is recognized as it accrues.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

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.

c) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings	5%
Motor Vehicles	25%
Industrial plant and machinery	12.5%
Office equipment	12.5%
Office Furniture & fittings	12.5%
Computers and accessories	33.3%
Loose tools	12.5%
Cans & crates	33.3%

Freehold land is not depreciated.

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation and impairment of property, plant and equipment (Continued)

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

d) Intangible assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years. Included in the figure computers & software is an amount relating to investment in Software/Intangible Asset. With effect from 1st July 2018, the company shall recognize all the related amounts under the Intangible Assets.

e) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

f) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the company, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

g) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the company are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Lease of land are classified as operating leases. The costs incurred to acquire the land is included in the financial statements as long term prepayments, which is amortized in the profit and loss account on straight line basis over the lease period

NOTES TO THE FINANCIAL STATEMENTS (Continued)

h) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

i) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

j) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

k) Inventories

Stocks are valued at the lower of cost and net realizable value. Cost comprises expenditure incurred in the normal course of business, including direct material costs, labor and production overheads whenever appropriate on a weighted average basis. Net realizable value is the price at which the stock can be realized in the normal course of business after allowing for the cost of realization and, where appropriate, the cost of conversion from its existing state to a realizable condition. Provision is made for obsolete, slow moving and defective stocks.

l) 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.

m) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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 utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized 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 relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

New Kenya Co-operative Creameries Ltd

**Reports and Financial Statements
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

o) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

p) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the company or not, less any payments made to the suppliers.

q) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees. The scheme is administered by an external administrator(Liberty Pensions) and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

r) Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. At provision is made for the estimated liability for annual leave at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

s) **Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the company operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

t) **Budget information**

The original budget for FY 2016-2017 was approved by the National Assembly in June 2016. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section XV1 of these financial statements.

u) **Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

v) **Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

E. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the New Kcc Ltd's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

State all judgements, estimates and assumptions made:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The New Kcc Ltd based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the New Kcc Ltd. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 6b.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 SALES

	2017 Kshs	2016 Kshs
Gross sales of goods	9,482,157,567	8,678,120,024
Less: Transport Rebates & Discounts	(43,562,986)	(41,566,773)
	<u>9,438,594,580</u>	<u>8,636,553,251</u>

2 GRANTS FROM NATIONAL GOVERNMENT

Capital grants received	470,000,000	300,000,000
	<u>470,000,000</u>	<u>300,000,000</u>

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2015-2016
			KShs	KShs	KShs
Ministry of Industrialization & Enterprise Development	-	-	470,000,000	470,000,000	300,000,000
Total	-	-	470,000,000	470,000,000	300,000,000

3 OTHER INCOME

	2017 Kshs	2016 Kshs
Sale of tender documents	170,531	64,224
Interest on staff loans	-	-
Fines and penalties	-	-
Rent Income	8,840,259	8,194,326
Other miscellaneous Income	1,001,959	7,690,294
	<u>10,012,749</u>	<u>15,948,844</u>

New Kenya Co-operative Creameries Ltd

Reports and Financial Statements

For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4(a) ADMINISTRATION COSTS

	2017	2016
	Kshs	Kshs
Staff costs (note 6)	322,034,464	294,942,145
Directors' emoluments	13,086,872	11,687,246
Electricity and water	3,454,784	3,436,567
Communication services and supplies	11,231,997	10,342,091
Transportation, travelling and subsistence	97,392,921	77,837,528
Advertising, printing, stationery and photocopying	18,541,786	19,172,282
Rent expenses	2,117,443	1,357,901
Staff training expenses	10,009,535	9,279,090
Hospitality supplies and services	6,967,234	5,900,892
Insurance costs	45,618,809	34,940,710
Bank charges and commissions	15,969,796	14,314,591
Office and general supplies and services	1,019,544	1,488,508
Auditors' remuneration	1,800,000	1,500,000
Legal fees	13,015,504	19,899,129
Consultancy fees	(47,500)	3,257,233
Repairs and maintenance	9,944,543	6,018,544
Provision for bad and doubtful debts	63,807,520	37,000,000
Other operating expenses	292,629,244	358,318,953
	<u>928,594,496</u>	<u>910,693,411</u>

4(b) STAFF COSTS

	2017	2016
	Kshs	Kshs
Salaries, Wages and allowances of permanent employees	197,968,832	176,636,886
Wages of temporary employees	7,766,816	7,142,829
Compulsory national health insurance schemes	54,696,014	52,536,001
Compulsory national social security schemes	382,000	366,435
Other pension contributions	7,103,511	6,534,845
Leave pay and gratuity provisions	28,555,262	24,882,405
Staff welfare	25,562,029	26,842,744
	<u>322,034,464</u>	<u>294,942,145</u>

The average number of employees at the end of the year was:

Permanent employees – Management	241	226
Permanent employees – Unionisable	708	695
Temporary and contract employees	701	764
	<u>1,650</u>	<u>1,685</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 SELLING AND DISTRIBUTION COSTS

	2017	2016
	Kshs	Kshs
Salaries and wages of sales personnel	273,088,435	249,370,386
Marketing and promotional expenses	59,807,778	61,887,792
Sales commissions	-	-
Sales discounts and rebates	-	-
Other selling and distribution costs	573,240,130	467,906,703
	<u>906,136,343</u>	<u>779,164,880</u>

6 OPERATING PROFIT/(LOSS)

The operating profit/(loss) is arrived at after charging/(crediting):

Staff costs (note 6)	322,508,775	294,942,145
Depreciation of property, plant and equipment	441,936,062	435,689,838
Provision for bad and doubtful debts	63,807,520	37,000,000
Directors' emoluments - fees	13,086,872	11,687,246
Auditors' remuneration - current year fees	1,800,000	1,500,000
Net foreign exchange (loss)/gain	6,637,278	9,246,731

7 FINANCE INCOME

	2017	2016
	Kshs	Kshs
Exchange gains on cash and bank balances	6,386,744	9,246,731
Interest income on short-term bank deposits	13,628,778	-
	<u>20,015,522</u>	<u>9,246,731</u>

8 FINANCE COSTS

	2017	2016
	Kshs	Kshs
Exchange losses on foreign current denominated loans	-	-
Exchange losses on short-term bank deposits	-	-
Exchange losses on cash and bank balances	-	-
Mpesa Charges	48,229,726	33,209,962
Interest expense on loans	81,858,089	64,108,061
Interest expense on bank overdrafts	84,423,100	106,256,923
	<u>214,510,914</u>	<u>203,574,945</u>

New Kenya Co-operative Creameries Ltd

**Reports and Financial Statements
For the year ended June 30, 2017**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 INCOME TAX EXPENSE/ (CREDIT)

(a) Current taxation

	2017	2016
	Kshs	Kshs
Current taxation based on the adjusted profit for the year at 30%	-	50,078,883
Current tax: prior year under/(over) provision	-	
Current year deferred tax charge	(26,762,055)	(51,379,570)
Prior period under-provision for deferred tax	-	2,438,861
	(26,762,055)	569,087

10 EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit after tax of Kshs.207,711,943 (2016: Kshs.39,769,708) by the average number of ordinary shares in issue during the year of 54,702,887 (2016: 54,702,887). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

11 DIVIDEND PER SHARE

The board of Directors do not recommended dividends for the year ended 30/06/2017.

Reports and Financial Statements
For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 PROPERTY, PLANT AND EQUIPMENT

2017	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Furniture & Fittings	Crates & Cans	Equipment & Loose Tools	Capital work in progress	Total
COST OR VALUATION										
At July 1, 2016	150,000,000	2,532,173,743	2,348,115,274	563,878,871	*383,363,867	21,546,447	140,564,864	*65,251,119	30,430,080	6,235,324,124
Additions	-	1,654,355	22,961,116	-	1,250,174	7,677,452	17,659,000	12,580,060	539,782,912	603,565,065
Transfers	-	4,279,881	370,557,512	-	-	-	-	2,799,400	(377,636,792)	-
Disposals	-	-	-	(2,987,538)	-	-	-	-	-	(2,987,538)
At June 30, 2017	150,000,000	2,538,107,979	2,741,633,902	560,891,333	384,614,041	29,223,899	158,223,864	80,630,579	192,576,200	6,835,901,797
DEPRECIATION										
At July 1, 2016	-	1,513,122,756	1,554,717,276	464,668,152	368,754,748	11,515,558	113,772,350	33,178,782	-	4,059,729,622
Charge for the year	-	126,643,354	290,411,178	44,485,221	14,637,626	2,858,943	14,451,654	7,323,900	-	500,811,877
Impairment loss	-	-	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-	-	-	-
At June 30, 2017	-	1,639,766,110	1,845,128,454	509,153,373	383,392,375	14,374,501	128,224,005	40,502,682	-	4,560,541,499
NBV										
At June 30, 2017	150,000,000	898,341,869	896,505,448	51,737,960	1,221,667	14,849,398	29,999,859	40,127,897	192,576,200	2,275,360,298

Reports and Financial Statements
For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

2016	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles, including motor cycles	Computers & related equipment	Furniture & Fittings	Crates & Cans	Equipment & Loose Tools	Capital work in progress	Total
COST OR VALUATION										
At July 1, 2015	150,000,000	2,526,823,552	2,243,111,546	511,375,226	367,610,963	14,533,774	117,622,114	68,787,214	26,552,076	6,026,416,323
Additions	-	5,350,191	37,502,912	52,503,645	5,518,204	7,012,673	22,942,750	6,698,605	71,378,820	208,907,800
Transfers	-	-	67,500,812	-	-	-	-	-	(67,500,816)	-
Disposals	-	-	-	-	-	-	-	-	-	-
At June 30, 2016	150,000,000	2,532,173,743	2,348,115,274	563,878,871	*373,129,167	21,546,447	140,564,864	*75,485,819	30,430,080	6,235,324,124
DEPRECIATION										
At July 1, 2015	-	1,386,632,937	1,267,391,660	420,774,601	349,203,302	9,401,385	103,216,686	26,427,225	-	3,563,047,796
Charge for the year	-	126,489,819	287,325,616	43,893,551	19,551,446	2,114,173	10,555,664	6,751,557	-	496,681,826
Impairment loss	-	-	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-	-	-	-
At June 30, 2016	0	1,513,122,756	1,554,717,276	464,668,152	368,754,748	11,515,558	113,772,350	33,178,782		4,059,729,622
NET BOOK VALUE										
At June 30, 2016	150,000,000	1,019,050,988	793,397,999	99,210,719	4,374,419	10,030,889	26,792,514	42,307,037	30,430,080	2,175,594,502

*Note, An inter-class adjustment was effected to correct the opening balances of both equipment & loose tools and Computer & related equipment, however, with no changes on the overall opening balance.

Reports and Financial Statements
For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Kshs 2017 Kshs	2016 Kshs 2016 Kshs
13 INTANGIBLE ASSETS		
COST		
At July 1	-	-
Additions	-	-
Disposals	(-)	(-)
At June 30	<u>-</u>	<u>-</u>
AMORTISATION		
At July 1	-	-
Charge for the year	-	-
Disposals	(-)	(-)
Impairment loss	(-)	(-)
At June 30	<u>-</u>	<u>-</u>
NET BOOK VALUE		
At June 30	<u>-</u>	<u>-</u>
14 INVESTMENT PROPERTY		
Opening valuation	150,000,000	150,000,000
Movements during the year		
Additions	-	-
Transfer from operating lease rentals (note 18)	-	-
Disposals	(-)	(-)
Fair value gains/(losses)	-	-
Closing valuation	<u>150,000,000</u>	<u>150,000,000</u>
AMORTISATION		
At July 1	-	-
Charge for the year	-	-
Disposals	-	-
Impairment loss	-	-
At June 30	<u>-</u>	<u>-</u>
NET BOOK VALUE		
At June 30	<u>150,000,000</u>	<u>150,000,000</u>

New Kenya Co-operative Creameries Ltd

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For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Kshs	2016 Kshs
15 PREPAID OPERATING LEASE RENTALS		
COST		
At July 1	911,089,220	911,089,220
Additions	0	0
Transfer to investment property (note 16)	0	0
Disposals	(0)	(0)
At June 30	911,089,220	911,089,220
AMORTISATION		
At July 1	121,084,013	110,293,155
Charge for the year	16,828,436	16,828,436
Prior Year Adjustment	0	(6,037,577)
Transfer to investment property (note 19)	0	0
Disposals	(0)	(0)
At June 30	137,912,449	121,084,013
NET BOOK VALUE		
At June 30	773,176,771	790,005,207
	2017 Kshs	2016 Kshs

16 QUOTED INVESTMENTS

Opening valuation	6,456,475	6,456,475
Movements during the year		
Additions	-	-
Disposals	(-)	(-)
Fair value gains/(losses)	-	-
Closing valuation	6,456,475	6,456,475

This represents Uchumi Supermarket Ltd 767,588 shares that were purchased in May 2011 at market unit price of Ksh 8.41

Name of entity where investment is held	No of shares			Nominal value of shares/purchase price	Fair value of shares	Fair value of shares
	Direct shareholding	Indirect shareholding	Effective shareholding			
	%	%	%	Shs	Current year Shs	Prior year Shs
Uchumi Supermarket	100	0	100	8.41	6,456,475	6,456,475
	100	0	100	8.41	6,456,475	6,456,475

New Kenya Co-operative Creameries Ltd

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 INVENTORIES

	2017	2016
	Kshs	Kshs
Finished Product	650,426,591	1,476,218,998
Work in Progress	4,516,582	20,315,564
Production Materials	273,949,947	214,359,146
Engineering stores	438,751,278	396,495,293
Fuel, oil and lubricants	14,837,954	17,503,433
Motor vehicle spare parts	20,601,730	17,907,857
Goods in transit	-	-
Stationery and general stores	9,697,290	16,070,293
	<u>1,412,781,371</u>	<u>2,158,870,584</u>

18 (a) TRADE AND OTHER RECEIVABLES

	2017	2016
	Kshs	Kshs
Trade receivables	1,558,606,802	1,277,029,185
Deposits and prepayments	49,413,667	50,215,634
VAT recoverable	350,132,927	287,807,174
Staff receivables	21,006,910	25,507,055
Other receivables	32,645,313	27,758,927
Gross trade and other receivables	-	-
Provision for bad and doubtful receivables	(249,605,310)	(185,797,710)
Net trade and other receivables	<u>1,762,200,310</u>	<u>1,482,520,265</u>

18 (b) TRADE RECEIVABLES

	2017	2016
	Kshs	Kshs
Trade receivables	1,558,606,802	1,277,029,185
Provision for bad and doubtful receivables	(249,605,310)	(185,797,710)
	<u>1,309,001,492</u>	<u>1,091,231,475</u>

At June 30, the ageing analysis of the gross trade receivables was as follows:

	2017	2016
	Kshs	Kshs
Less than 30 days	367,219,420	518,181,968
Between 30 and 60 days	306,588,065	201,667,494
Between 61 and 90 days	195,237,475	56,215,716
Between 91 and 120 days	46,222,046	22,523,667
Over 120 days	393,734,486	292,642,630
	<u>1,309,001,492</u>	<u>1,091,231,475</u>

New Kenya Co-operative Creameries Ltd

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For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 (c) STAFF RECEIVABLES

	2017	2016
	Kshs	Kshs
Gross staff loans and advances	21,006,910	25,507,055
Provision for impairment loss	<u>(17,428,776)</u>	<u>(9,621,256)</u>
	3,578,134	15,885,799
Less: Amounts due within one year	<u>(3,578,134)</u>	<u>(15,885,799)</u>
Amounts due after one year	<u>0</u>	<u>0</u>

19 TAX RECOVERABLE

At beginning of the year	(30,989,076)	(20,229,606)
Income tax charge for the year (note 9)	-	48,779,821
Under/(over) provision in prior year/s (note 9)	-	2,438,861
Taxes Paid in the year	20,098,981	-
Income Tax payable	<u>(10,890,095)</u>	<u>(30,989,076)</u>

20 BANK AND CASH BALANCES

	2017	2016
	Kshs	Kshs
Cash at bank	1,131,188,375	190,720,228
Cash in hand	2,536,047	1,629,618
	<u>1,133,724,423</u>	<u>192,349,846</u>
Petty Cash	2,536,047	1,629,618
Cooperative Bank	-	-
Equity Bank	2,582,201	1,418,734
Kenya Commercial Bank	809,354,599	415,661
Standard Chartered Bank	19,909	960,059
Stanbic Bank	451,764	394,886
Co-operative Account USD Account	641	2,565
Fixed deposits account	309,912,813	40,837,809
Mpesa Collection Utility Account	8,866,448	7,130,014
	<u>1,133,724,423</u>	<u>52,789,349</u>

New Kenya Co-operative Creameries Ltd

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For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The make – up of bank balances and short term deposits is as follows:

Detailed analysis of the cash and cash equivalents

Financial institution	Account number	2016-2017 KShs	2015-2016 KShs
a) Current account			
Co-operative Bank		-	-
Equity Bank		2,582,201	1,418,734
Kenya Commercial Bank		809,354,599	415,661
Standard Chartered Bank		19,909	960,059
Stanbic Bank		451,764	394,886
Co-operative Account USD Account		641	2,565
Sub- total		812,409,114	3,191,905
b) On - call deposits			
Kenya Commercial bank		-	-
Co-operative Bank		-	-
Sub- total		-	-
c) Fixed deposits account			
Kenya Commercial bank		300,000,000	-
Co-operative Bank		9,912,813	40,837,809
Sub- total		309,912,813	40,837,809
d) Staff car loan/ mortgage			
Kenya Commercial bank		-	-
Bank B		-	-
Sub- total		-	-
e) Others(specify)			
Cash in transit		-	-
cash in hand		2,536,047	1,629,618
Mpesa		8,866,448	7,130,014
Cheques in hand		-	139,560,499
Sub- total		11,402,495	148,320,131
Grand total		1,133,724,423	192,349,846

2017
Kshs

2016
Kshs

21 ORDINARY SHARE CAPITAL

Authorised:

200,000,000 ordinary shares of Kshs.10 par value each

2,000,000,000

2,000,000,000

Issued and fully paid:

54,702,887 ordinary shares of Kshs.10 par value each

547,028,870

547,028,870

This is the amount paid by the Government of Kenya to KCC 2000 Ltd, now for allotment for 10 shares of Kshs 54, 702,887 each.

New Kenya Co-operative Creameries Ltd

Reports and Financial Statements

For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

23 FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

24 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the *entity's* shareholders. Undistributed retained earnings are utilised to finance the *entity's* business activities.

	2017 Kshs	2016 Kshs
25 BORROWINGS		
	2017	2016
	Kshs	Kshs
Balance at beginning of the period	464,324,614	347,427,657
External borrowings during the year	-	-
Domestic borrowings during the year	300,000,000	232,053,942
Repayments of external borrowings during the period	-	-
Repayments of domestic borrowings during the period	(120,274,888)	(115,156,985)
Total Repayments on borrowings	(120,274,888)	(115,356,986)
Balance at end of the period	644,049,726	464,324,614
Less: Amounts due within one year (Current Portion)	184,592,184	125,499,553
Amounts Due after one year (non-current portion)	459,457,542	338,825,061

The analyses of both external and domestic borrowings are as follows:

External Borrowings

Dollar denominated loan from 'A'	-	-
Sterling Pound denominated loan from 'B'	-	-
Euro denominated loan from 'C'	-	-

Domestic Borrowings

	2017 Kshs	2016 Kshs
Long Term Loan (co-op Bank)	116,100,000	147,060,000
Loan - Stanbic Asset finance facility	39,019,208	45,308,175
Loan - Co-operative Bank Asset Finance	213,930,518	271,956,439
Long Term Loan (co-op Bank)-Restructuring	275,000,000	-
TOTAL BALANCE AT THE END OF THE YEAR	<u>644,049,725.5</u>	<u>464,324,614</u>

Note: Five properties valued at Kshs 1,104,882,500 are charged and held in a local bank as collateral.

New Kenya Co-operative Creameries Ltd

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
	Kshs	Kshs
26 DEFERRED TAX LIABILITY		
Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:		
Accelerated capital allowances	-	-
Unrealised exchange gains/(losses)	-	-
Revaluation surplus	-	-
Tax losses carried forward	(-)	(-)
Provisions for liabilities and charges	(-)	(-)
Net deferred tax liability	<u> </u>	<u> </u>

The movement on the deferred tax account is as follows:

Balance at beginning of the year	(144,681,023)	(93,301,453)
Credit to revaluation reserve	(26,762,055)	(51,379,570)
Balance at end of the year	<u> </u>	<u> </u>

27 TRADE AND OTHER PAYABLES

	2017	2016
	Kshs	Kshs
Trade payables	798,639,387	540,181,902
Accrued expenses	280,262,295	231,962,402
	<u>1,078,901,682</u>	<u>772,144,303</u>

28 RETIREMENT BENEFIT OBLIGATIONS

The entity operates a defined benefit scheme for all full-time employees which is administered externally by Liberty pensions. The company also operates a gratuity for its senior management who are on contract. The liability at the end of the year is as follows:

	2017	2016
	Kshs	Kshs
Gratuity for senior management	50,930,797	64,636,470

The report from the administrator for the defined benefits scheme as at 30th June 2017 is as follows:

	2017	2016
	Kshs	Kshs
Net assets available for benefits at start of year	503,163,579.57	460,640,459.24
Increase in the net assets for the year	12,279,025.49	42,523,120.33
Net assets available for benefits at end of year	<u>515,442,605.06</u>	<u>503,163,579.57</u>

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

New Kenya Co-operative Creameries Ltd

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For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
	Kshs	Kshs
29 PROVISION FOR LEAVE PAY		
	2017	2016
	Kshs	Kshs
Balance at beginning of the year	15,450,295	16,371,980
Additional provision at end of year	1,797,975	(137,478)
Leave paid out or utilized during the year	<u>(1,831,460)</u>	<u>(784,207)</u>
Balance at the end of the year	<u>15,416,810</u>	<u>15,450,295</u>

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

New Kenya Co-operative Creameries Ltd

Reports and Financial Statements

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30 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations

	2017	2016
	Kshs	Kshs
Operating profit/(loss)	375,445,281	210,703,778
Depreciation	441,936,062	435,689,838
Amortization	-	(132,068,917)
(Gain)/loss on disposal of property, plant and equipment		
Operating profit/(loss) before working capital changes	817,381,343	514,324,699
(Increase)/decrease in inventories	746,089,213	(615,843,661)
(Increase)/decrease in trade and other receivables	(279,680,045)	66,483,726
Increase/(decrease) in trade and other payables	306,723,894	(31,618,734)
Increase/(decrease) in retirement benefit obligations	(13,705,673)	-
Increase/(decrease) in provision for staff leave pay	-	-
Cash generated from/(used in) operations	<u>1,576,808,734</u>	<u>(66,653,968)</u>

(b) Analysis of changes in loans

	2017	2016
	Kshs	Kshs
Balance at beginning of the year	464,324,614	347,427,657
Receipts during the year	300,000,000	232,053,942
Repayments during the year	(120,274,888)	(115,156,985)
Repayments of previous year's accrued interest	-	-
Foreign exchange (gains)/losses	-	-
Accrued interest	-	-
Balance at end of the year	<u>644,049,726</u>	<u>464,324,614</u>

(c) Analysis of cash and cash equivalents

	2017	2016
	Kshs	Kshs
Short term deposits	309,912,813	40,837,809
Cash at bank	821,275,562	10,321,920
Cash in hand	2,536,047	1,629,618
Bank Overdraft	(469,859,343)	(798,172,824)
Balance at end of the year	<u>663,865,079</u>	<u>(745,383,477)</u>

New Kenya Co-operative Creameries Ltd

Reports and Financial Statements

For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(d) Analysis of interest paid

	2017	2016
	Kshs	Kshs
Interest on loans (note 10)	81,858,089	64,108,061
Interest on bank overdraft (note 10)	84,423,100	106,256,923
	<u>166,281,189</u>	<u>170,364,984</u>
Interest on loans capitalized	81,858,089	64,108,061
Balance at beginning of the year	464,324,614	327,427,657
Balance at end of the year (note 36(b))	<u>644,049,726</u>	<u>464,324,614</u>
Interest Paid	<u>81,858,089</u>	<u>64,108,061</u>

31 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of New Kcc Ltd, holding 100% of the New Kcc Ltd's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external.

Other related parties include:

(i) Amount due from related parties:

Kenya Dairy Board	7,307,585.61	7,307,585.61
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(ii) Amount due to related parties:

Government of Kenya(Formerly Ministry Of Special Programs)	(2,995,884.00)	(2,995,884.00)
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Kshs	2016 Kshs
Transactions with related parties		
a) Sales to related parties		
Sales of goods	-	-
Sales of services	-	-
Total	<u>-</u>	<u>-</u>
b) Grants from the Government		
Grants from National Govt	470,000,000	300,000,000
Grants from County Government	-	-
Donations in kind	-	-
Total	<u>470,000,000</u>	<u>300,000,000</u>
c) Expenses incurred on behalf of related party		
Payments of salaries and wages for xxx employees	-	-
Payments for goods and services for xxx	-	-
Total	<u>-</u>	<u>-</u>
d) Key management compensation		
Directors' emoluments	13,087,347	11,687,246
Compensation to the CEO	8,880,000	8,880,000
Compensation to key management	49,539,840	42,577,699
Total	<u>71,507,187</u>	<u>63,144,945</u>
32 CAPITAL COMMITMENTS		
Amounts authorised and contracted for	553,519,847	455,596,700
Less: Amounts incurred and included in work-in-progress	(117,687,295)	(70,334,906)
	<u>435,832,552</u>	<u>385,261,794</u>

New Kenya Co-operative Creameries Ltd

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For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 CONTINGENT LIABILITIES

Bank guarantees	9,912,813	40,837,809
Legal claims against New Kcc Ltd	92,490,112	92,490,112
	<u>102,402,925</u>	<u>133,327,921</u>

The company is a defendant in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

34 FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

New Kenya Co-operative Creameries Ltd

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For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2017				
Receivables from exchange transactions	1,298,433,326	663,239,319	241,459,521	393,734,486
Receivables from non-exchange transactions	455,070,442	455,070,442	0	0
Bank balances	1,131,188,365	1,131,188,365	0	0
Total	2,884,692,133	2,249,498,126	241,459,521	393,734,486
At 30 June 2016				
Receivables from exchange transactions	1,085,050,749	719,849,462	78,739,383	286,461,904
Receivables from non-exchange transactions	398,928,988	398,928,988		
Bank balances	190,720,228	190,720,228		
Total	1,674,699,965	1,309,498,678	78,739,383	286,461,904

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from trade creditors (exchange transactions).

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

New Kenya Co-operative Creameries Ltd

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For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 FINANCIAL RISK MANAGEMENT (Continued)

ii) Liquidity risk management (Continued)

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2017				
Trade payables	87,947,214	411,937,383	592,814,277	1,092,698,874
Current portion of borrowings	-	-	1,113,909,069	1,113,909,069
Provisions	-	-	63,807,520	63,807,520
Deferred income	-	-	-	-
Employee benefit obligation	-	-	50,930,797	50,930,797
Total	87,947,214	411,937,383	1,821,461,663	2,321,346,260
At 30 June 2016				
Trade payables	163,270,224	433,348,763	221,964,687	818,583,674
Current portion of borrowings	-	-	1,262,297,438	1,262,297,438
Provisions	-	-	37,000,000	37,000,000
Deferred income	-	-	-	-
Employee benefit obligation	-	-	64,636,470	64,636,470
Total	163,270,224	433,348,763	1,585,898,595	2,182,517,582

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

New Kenya Co-operative Creameries Ltd

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2017			
Financial assets(investments, cash ,debtors)	-	-	-
Liabilities			
Trade and other payables	-	-	-
Borrowings	-	-	-
Net foreign currency asset/(liability)	-	-	-

The entity manages foreign exchange risk form future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2017			
Financial assets(investments, cash ,debtors)	-	-	-
Liabilities	-	-	-
Trade and other payables	-	-	-
Borrowings	-	-	-
Net foreign currency asset/(liability)	-	-	-

New Kenya Co-operative Creameries Ltd

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For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

(iii) Market risk (Continued)

Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
2017			
Euro	10%	-	-
USD	10%	-	-
2016			
Euro	10%	-	-
USD	10%	-	-

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of Kshs nil (2016: Kshs nil). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs nil (2016 – Kshs nil)

New Kenya Co-operative Creameries Ltd

Reports and Financial Statements

For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

iv) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2016-2017	2015-2016
	Kshs	Kshs
Revaluation reserve	2,033,910,449	2,111,730,760
Retained earnings	1,887,392,868	1,706,440,193
Capital reserve	547,028,870	547,028,870
Total funds	4,468,332,186	4,365,199,822
Total borrowings	1,113,909,069	1,262,297,438
Less: cash and bank balances	(1,133,724,423)	(52,789,347)
Net debt/(excess cash and cash equivalents)	(19,815,354)	1,209,508,091
Gearing	-0.4%	28%

35 INCORPORATION

New Kcc Ltd is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

36 EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

37 CURRENCY

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

New Kenya Co-operative Creameries Ltd
Reports and Financial Statements
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G. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue/Observations from Auditor (2015/16 audit certificate issues)	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe:
1(i)	Property, plant and equipment balance of Ksh 2,175,594,502 as at 30th June 2016 includes an amount of Ksh 1,906,927,500 representing the value of forty nine(49) properties whose title documents were not availed for audit verification	The 49 properties relate to the properties that were vested to New Kenya Co-operative Creameries Limited when the Government purchased the same from the previous owners. The said properties had no titles when the same were vested. Some of said properties were only evidenced by letters of allotment or correspondence. NKCC has engaged lawyers to follow on the properties to obtain titles for them. The lawyers have engaged the National Land Commission on this exercise.	Company Secretary	In progress	On going
1(ii)	Property, plant and equipment balance of Ksh 2,175,594,502 as at 30th June 2016 excludes fifteen(15) parcels of land and buildings which were not valued.	The fifteen (15) parcels are listed as disputed properties on account of the properties being transferred to third parties under unclear circumstances. The properties are not in the physical possession of NKCC but are being pursued through the legal process.	Company Secretary	In Progress	On going
1(iii)	Property, plant and equipment balance of Ksh 2,175,594,502 as at 30th June 2016 includes sixteen (16) disputed properties with a value of Ksh 222,500,000 and registered in the name of third parties. However, the valuation report gives a value of Ksh 750,000,000 for the disputed properties.	The book value of Ksh 225,000,000 were indicated around 1999 by a report by Watts Enterprises who had given the Authority to sell the properties on behalf of KCC limited (in Liquidation). The value of Ksh 750,000,000 was arrived at by Regent Land Valuers Limited estimates during the Valuation exercise prepared pursuant to a due diligence exercise undertaken for NKCC.	Company Secretary	In Progress	30.06.2018

New Kenya Co-operative Creameries Ltd

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		NKCC is in the process of undertaking a valuation of its properties which is to be done in the financial year 2017/2018			
1(iv)	The company failed to disclose in the financial statements that the Ethics and Anti-corruption Commission had cleared two disputed properties LR/NO 37/371 and LR/NO 37/22 situated in Upper hill -Nairobi which had legally been transferred to third parties.	The two properties are part of the disputed properties. Due to circumstances surrounding the transfer NKCC has instructed Advocates to file cases in respect to their transfer for the court to look at the evidence and determine if the transfer was legitimate	Company Secretary	In Progress	On going
1(v)	Five(5) acres out of 13.33 ha (32.94 acres) of land L.R No MN/VI/2860 where Miritini Factory is located , has been encroached by squatters some of whom have already put up permanent structures thereby exposing the company to likely loss of vital property .	The company has sued for eviction of the squatters. The case has not been determined by the court	Company Secretary	In Progress	On going
2(i)	The balance of Trade receivables and pre-payments includes bounced cheques amounting to ksh 35,453,124 which has remained outstanding for over one year.	The amount of KShs. 21,754,940 of bounced cheques that are long outstanding are being pursued by our debt collectors, in the meantime we reviewed credit policy requirements and included punitive clauses such as need for credit referencing to deter such practices. All cases of bounced cheques are followed up immediately to ensure the company is not exposed going forward.	Company secretary /Chief Manager Finance/Chief Manager of Sales & Marketing.	In Progress	On Going
2(ii)	The balance of Trade receivables and prepayments includes staff debts amounting to Ksh 25,507,054 out of which an amount of	The company has already instituted legal action against two of former senior staff to recover the amount owed by them.	Company secretary	In Progress	On going

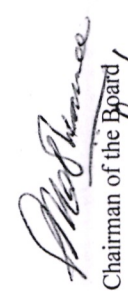
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	9,355,033 relates to staff who left the company without payment or recovery.	In addition, we wish to clarify further that apart from the cases in court, a number of ex-staff cases have since been referred to debt collectors			
2(iii)	Included in the balance is an unreconciled and unexplained credit balance amounting to Ksh 45,958,477.	These balances mostly relate to un-reconciled payments from the older customer debts with the debits (invoices) in separate accounts. We embarked on an exercise to reconcile the old milk agent's balances to ensure matching of the payment receipts and invoices.	Chief Manager Finance	In Progress	On going
3	Trade payables and accruals balance of Ksh 787,594,598 as at 30 th June 2016 includes an amount of Kshs 70,237,302 which has remained outstanding for more than one year.	The bulk of these cases relate to supplier balances with pending and ongoing court cases. The rest are balances owed to suppliers who failed to provide proper invoices (Non ETR Invoices) and other with partially supplied LPOS. Nkcc has an internal control measure in payables where payments are only processed –only where supplies attain a threshold of 90% of the local Purchase Order. Such payments have since been settled after all the required documents and the order fully supplied.	Chief Manager Finance	Resolved	30 th June 2017


Manager Director

ate. 28/9/2017


Chairman of the Board

Date. 28/9/2017

New Kenya Co-operative Creameries Ltd

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I. APPENDIX 1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

S/No.	Project Name	Contract Date	Expected date of completion	Budget (KShs.)	Source of funds	Expected Outcome	% Rate of completion	Remarks
1	Supply, installation and commissioning of Gable top Milk Filling machine – Dandora Factory	Pending	FY 2017-18	Euros. 472,325	GOK	Enhanced milk Packaging/filling capacity	75% of phase I	Awarded, awaiting signing of contract to complete phase I Phase 2 will be delivery, installation and commissioning in FY 2017-18
2	Supply, installation of Bottle filling machine – Dandora Factory	Pending	FY 2017-18	KES. 49,601,600	GOK	Enhanced milk Packaging/filling capacity	75% of phase I	Awarded, awaiting signing of contract to complete phase I Phase 2 will be delivery, installation and commissioning in FY 2017-18
3	Supply, installation and commissioning of yoghurt cup filling machine – Dandora Factory	Pending	FY 2017-18	KES. 34,637,600	GOK	Enhanced Fermented milk Packaging/filling capacity	75% of phase I	Awarded, awaiting signing of contract to complete phase I Phase 2 will be delivery, installation and commissioning in FY 2017-18
4	Supply, installation and commissioning of Fermented Milk processing – Dandora Factory	Pending	FY 2017-18	KES. 76,823,884	GOK	Enhanced fermented milk production/processing capacity	75% of phase I	Awarded, awaiting signing of contract to complete phase I Phase 2 will be delivery, installation and

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5	Supply and deliver 3 ton Forklift – Eldoret Factory	28/04/2017	27/08/2017	KES. 2,529,000	New KCC Budget	Improve finished products handling capacity.	75	Equipment already imported awaiting fitting of number plate To be delivered by August 2017
6	Supply, installation and commissioning of Aseptic Tetrahedron milk filling machine – Sotik Factory	Pending	FY 2017-18	Euros. 704,135	GOK	Enhanced milk Packaging/filling capacity	75% of phase 1	Awarded, awaiting signing of contract to complete phase 1 Phase 2 will be delivery, installation and commissioning in FY 2017-18
7	Supply, installation and commissioning of Air compressor – Eldoret Factory	28/02/2017	Commissioned	KES. 6,483,434	New KCC Budget	Improve air utility requirement/capacity of the factory and equipment modernization	100	Completed
8	Design, supply, installation of filling room mechanical ventilation system – Eldoret Factory	N/A	Terminated	10,000,000 (Budget)	New KCC Budget	Enhance UHT processing and filling environment for quality assurance.	0	Terminated
9 9a	ELDORET MODERNISATION PROJECT: Supply, Installation and Commissioning of a sterilizer, Fillers CIP and Aseptic tank – Eldoret Factory	24/08/2016	Commissioned	Euros. 1,229,521	GOK	Enhanced Long Life milk Processing and filling capacity	100	Completed Equipment on commercial production since 08/06/2017
9b	Supply, Installation and Commissioning of 250 mls Aseptic filling machine – Eldoret Factory	29/08/2016	September 2017	\$ 850,838	GOK	Enhanced Long Life milk Packaging/filling capacity	85	Delivered, positioned and powered, awaiting installation window

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9c	Supply, Installation and Commissioning of 500 mls Aseptic Filling machine (TFA) with Cardboard packer – Eldoret Factory	03/11/2016	Commissioned	€. 817,046	GOK	Enhanced Long Life milk Packaging/filling capacity	100	Completed Equipment on commercial production since 08/06/2017
9d	Supply, Installation and Commissioning of 1000 mls Aseptic filling machine – Eldoret Factory	17/08/2016	Commissioned	€. 952,213	GOK	Enhanced Long Life milk Packaging/filling capacity	100	Completed Equipment on commercial production since 08/06/2017
10	Yoghurt fermentation line expansion – Dandora Factory	18/08/2015	Commissioned	KES. 21,761,027	New KCC Budget	Enhanced fermented milk production capacity	100	Completed Equipment on commercial production since 20/04/2017

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J. APPENDIX 2: INTER-ENTITY TRANSFERS

ENTITY NAME:			
Break down of Transfers from the State Department of XXX			
FY 16/17			
a. Recurrent Grants			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		-	
		-	
		-	
	Total	-	
b. Development Grants			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	09/05/2017	235,000,000	2017
	22/11/2016	160,000,000	2017
	22/11/2016	75,000,000	2017
	Total	470,000,000	
c. Direct Payments			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		-	
		-	
		-	
	Total	-	
d. Donor Receipts			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		-	
		-	
		-	
	Total	-	

The above amounts have been communicated to and reconciled with the parent Ministry

Finance Manager
New Kcc Ltd



Sign -----

Head of Accounting Unit
Ministry of Industrialization &
Cooperative Development

Sign-----

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K. Appendix 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/recognized						Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific		
Ministry of Industrialization and Enterprise Development	09/05/2017	Development	-	-	235,000,000	-	-	-	-	235,000,000
Ministry of Industrialization and Enterprise Development	22/11/2016	Development	-	-	160,000,000	-	-	-	-	160,000,000
Ministry of Industrialization and Enterprise Development	22/11/2016	Development	-	-	75,000,000	-	-	-	-	75,000,000
Total			-	-	470,000,000	-	-	-	-	470,000,000

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