

REPORT

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ON

KIPCHABO TEA FACTORY LIMITED

**FOR THE YEAR ENDED
30 JUNE, 2019**



KIPCHABO TEA FACTORY LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2019

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

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BOARD OF DIRECTORS

Prof. Elizabeth Pantoren – Chairperson – appointed May 2019

Mr. Mathew Iteere – Chairman – left in March 2019

Mr. Peter K. Korir - Director - appointed to the board in 2012

SENIOR MANAGEMENT TEAM

1	 Peter K. Korir – Managing Director	Mr Peter Korir is 50 years and joined the board in November 2012. He holds a Bachelor of Science degree in Mathematics from Egerton University and MBA (Strategic Management) from University of Nairobi. He is also a graduate of IESE Business school in Advanced Management. He has over 22 years' experience in management having previously worked with East African Portland Cement and Unilever Kenya in various management positions.
2	 Samuel Njire – Head of Finance	Mr Samuel Njire joined the corporation in 2009 and is the Head of Finance. He holds a Bachelor of Commerce (Accounting) and MBA (Finance) degrees both from University of Nairobi. He is also a certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK) – Membership No. 6527. He is responsible for overall financial stewardship of the corporation. He has over 27 years' experience in finance in both public and private institutions
3	 Charles Mucheke – Head of Operations	Mr Charles Mucheke joined the Corporation in 2005 and is the Head of Operations. He holds a Bachelor of Science (Agriculture) and MBA (Operations Management) degrees both from University of Nairobi. He is responsible for all agronomy operations in the Corporation. Prior to joining the Corporation, he worked with KTDA and has over 26 years' experience in the tea industry.
4	 William Togom – Head of Human Resource and Administration	Mr Togom joined the corporation in 2003 and is the head of human resources and administration. He holds a Bachelor of Arts degree in Anthropology. He also hold a Diploma in Human Resource Management from Kenya Institute of management (KIM). He is a member of Human Resource Management Institute of Kenya – Membership No. 03386. He has over 22 years' experience in human resource and administration.
5	 David Chepkwony – Head of Commercial	Mr Chepkwony is 47 years old and joined the corporation in 2014 as head of commercial unit. He holds a Bachelor of Commerce degree in Marketing. Prior to joining the Corporation, he worked with Ketepa, Del Monte Kenya Ltd, Reckitt Benckiser EA Ltd & Unilever Kenya Ltd and has over 20 years' experience in sales and marketing.

CHAIRMAN'S STATEMENT

I am pleased to present to you the Annual Report and financial statements of Kipchabo Tea Factory Limited for the year ended 30 June 2019. The Factory is a wholly owned subsidiary of Nyayo Tea Zones Development Corporation.

The past year was particularly difficult period for our operations which was primarily occasioned by harsh business environment. This resulted in a significant drop in net earnings which from Ksh. 40 million to Ksh. 0.4 million which is attributed to a crash in tea prices in the global tea markets. The past year witnessed major disruptions in the major tea markets which was compounded by over-supply of tea causing major uncertainty and significant losses in the tea industry.

The Company continued to make investments in form of machinery and equipment aimed at enhancing capacity and boosting efficiency. Installation of automated continuous tea weathering machinery was completed and commissioned while installation of a third line was undergoing testing by the close of the year.

In the past financial year green leaf intake from our farms and out growers increased by 0.4% to 21.2 million kgs. The factory currently is capable of handling 30 million kgs with 3 lines in operation and automated weathering. Green leaf collection is projected to grow in the coming years due to our continued partnership with the farmers and enhancement of our tea blocks in the catchment zones. Company's strategy is to enhance value addition which will increase our revenues and transfer the benefit to our farmers and communities in the Factory catchment. We have aligned our strategy to enhance the achievement of the Big Four Agenda pillars of manufacturing, food security and nutrition.

During the year, the Company initiated programs to empower farmers and communities in the catchment in form of agronomy trainings and access to farm inputs. This initiative will help increase production as well as improving the standards of living for the community. We also work closely with the County government in improvement of access roads and we were able to rehabilitate over 32 kms in the past year.

Our tea brands continued to grow in the local market despite stiff competition and we expect to gain larger market share due to the high quality of our tea. Our sales volumes in the domestic market grew by 29% in the last financial year, a trend that is expected to continue.

I extend my gratitude for the invaluable support given by the Board of Directors, management and staff and the Government for being committed to the Company's affairs. I also take this opportunity to appreciate our esteemed customers without who we could not have gone this far.



CHAIRPERSON

Date..... 30/9/2019

MANAGING DIRECTOR'S STATEMENT

General

I am delighted to present to you the Annual Report and financial statements of Kipchabo Tea Factory Limited for the year ended 30 June 2019. The Factory is a wholly owned subsidiary of Nyayo Tea Zones Development Corporation.

Financial Results

During the year volumes of processed tea sold increased by 2.5% to 4.9 million Kgs compared to 4.8 million Kgs in the previous year. Revenues dropped by 21% to Ksh. 906 million which was mainly attributed to drop in prices of processed tea at the auction. Direct expenses decreased by 19% to Ksh. 758 million compared to Ksh. 936 million in the previous year primarily due to reduction of price paid on green leaf tea processed. Indirect expenses decreased by 6% to Ksh. 158 Million compared to Ksh.167 Million in the previous year. Overall the company recorded a loss of Ksh. 7.8 million compared to a net profit of Ksh. 39.9 million in the previous year.

Operations

Total green leaf received by the factory was 21.2 million Kgs which is an increase of 0.4% compared to 21.1 million Kgs in the previous year. Out of the total green leaf received, out growers contribution was 11.2 million Kgs which is 53% while the rest was collected from Nyayo Tea Zones factory catchment namely Nandi, Kakamega and Kaptarakwa. Out-growers volume 11.2 million Kgs is an increase of 2% compared to 11 million Kgs in the previous year.

Processed tea volumes increased by 2.5% to 4.87 million Kgs compared to 4.76 million Kgs in the previous year giving an out-turn of 23% (2017/2018 - 23%).

Future outlook

We are hoping that the tea prices in the global market will recover in the current financial year and remain stable. The company projects to grow its local market share which will also generate additional revenue and cushion against volatility in the Mombasa Auction prices as well as exchange rate fluctuations.

Appreciation

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


Peter K. Korir

Managing Director

Date.....30/9/2019.....

CORPORATE INFORMATION

Registered Office and Principal place of Business:

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

NAIROBI

Auditors:

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

NAIROBI

Bankers:

Kenya Commercial Bank Ltd
Kipande House Branch
P.O. Box 30012 00100

NAIROBI

Stanbic Bank Kenya Ltd
Kenyatta Avenue Branch
P.O. Box 30550 00100

NAIROBI

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30th June 2019, which disclose the state of affairs of the Company.

Incorporation

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

Principal Activity

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

Results

	2018/2019 (Kshs)	2017/2018 (Kshs)
Profit /(Loss) before tax	(7,862,538)	39,969,105
Net Profit/ (Loss) for the year	<u>(7,862,538)</u>	<u>39,969,105</u>

Directors

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

Auditors

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

By order of the Board



Peter Korir
Managing Director

Date.....30/9/2019.....

STATEMENT OF CORPORATE GOVERNANCE

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

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

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

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

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

STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY

The Company through its parent company, Nyayo Tea Zones Development Corporation (The Corporation), continues to emphasize on the importance of Corporate Social Responsibility (CSR) for a sustainability of its operations. As is rightly in our mandate conservation of the environment serves a key pillar in our CSR activities.

During the year the Corporation donated 1 million tea seedlings to communities in the South rift region. The Corporation has constructed over 100 Tea Collection Centres in the 19 zones of operation where the communities' tea is also collected. We also support green leaf transportation for the communities. In addition we have programs for outgrowers training and empowerment in Kipchabo Factory catchment.

The Corporation sponsored the 2018 Chesumei Constituency Educational Day in Nandi County.

The Corporation also purchased avocado seedlings for farmers in Kericho County in its efforts to empower the community.

During the year the Corporation sponsored the 2018 Freedom from Hunger Walk held in Nairobi.

The Corporation was also engaged in roads maintenance activities in all the zones where it operates which benefited the communities around immensely.

The Corporation in addition continued to support livelihoods in all our operating area by means of providing consistent source of employment to the communities adjacent to our tea and forestry operations. We also engage the community in conservation activities such as restoration of ecologically sensitive areas as well as providing free seedling for forestry products.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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



Chairperson



Managing Director

Date... 30/9/2019

Date... 30/9/2019

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KIPCHABO TEA FACTORY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kipchabo Tea Factory Limited set out on pages 1 to 10, which comprise of the statement of financial position as at 30 June, 2019, statement of profit or 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 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, the financial statements present fairly, in all material respects, the financial position of the Kipchabo Tea Factory Limited as at 30 June, 2019, 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 Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kipchabo Tea Factory Limited in Management accordance with ISSAI 130 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 opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Information

The directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of the

directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes effective and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and
- iii. The Company's financial statements are in agreement with accounting records and returns.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, the Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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. 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 and weakness 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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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.
- 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 as a going concern. 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 as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company 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.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

15 February, 2021

Kipchabo Tea Factory Ltd
Financial Statements
For the year ended 30th June 2019

STATEMENT OF PROFIT/(LOSS) AND OTHER COMPREHENSIVE INCOME

	Notes	2018/2019 Kshs	2017/2018 Kshs
Turnover	2 (a)	906,426,269	1,145,255,633
Cost of Production	2 (b)	(757,652,433)	(936,088,129)
Gross Profit		148,773,836	209,167,504
Administrative Expenses	2 (c)	(34,806,750)	(34,247,653)
Other Operating Expenses	2 (d)	(62,211,385)	(76,724,048)
Employment Expenses	2 (e)	(60,885,290)	(56,528,141)
		(157,903,425)	(167,499,842)
Operating Profit Before finance Costs		(9,129,589)	41,667,662
Profit before Exceptional Item		(9,129,589)	41,667,662
Other Income/Exchange Gain	2(g)	1,267,051	(1,698,557)
Net profit/(loss) for the year		(7,862,538)	39,969,105

Kipchabo Tea Factory Ltd
Financial Statements
As at 30th June 2019

STATEMENT OF FINANCIAL POSITION

	Notes	2018/2019 Kshs	2017/2018 Kshs
Property, Plant & Equipment	3	832,175,314	749,280,094
CURRENT ASSETS			
Inventories	4	149,705,035	113,503,929
Trade Receivables	6	471,201,709	562,981,607
Cash & Bank Balances	5	33,287,715	28,185,540
TOTAL CURRENT ASSETS		654,194,459	704,671,076
CURRENT LIABILITIES			
Trade & Other Payables	7	620,701,271	580,420,131
TOTAL CURRENT LIABILITIES		620,701,271	580,420,131
NET CURRENT ASSETS		33,493,188	124,250,946
TOTAL NET ASSETS		865,668,502	873,531,040
FINANCED BY			
Ordinary Shares	8	100,000	100,000
Share Premium	8	809,171,518	809,171,518
Accumulated Profit	8	56,396,985	64,259,523
TOTAL CAPITAL		865,668,502	873,531,040

The financial statements were approved by the Board of Directors on 30/9/2019 and were signed on its behalf by:-


Prof. Elizabeth Pantoren
Chairperson


Peter Korir
Managing Director

Kipchabo Tea Factory Ltd
Financial Statements
For the year ended 30th June 2019

STATEMENT OF CHANGES IN EQUITY

2018/2019

	Accumulated Fund Kshs	Revenue Reserves Kshs	Total Kshs
Shareholders Funds	809,271,518	24,290,419	833,561,937
Net Profit/(Loss) for the year		39,969,105	39,969,105
As at 30th June 2018	809,271,518	64,259,523	873,531,041
	-		-
Net Profit/(Loss) for the year		(7,862,538)	(7,862,538)
As at 30th Jun 2019	809,271,518	56,396,985	865,668,503

Note: Reserves are maintained by the Company for future expansion

2017/2018

	Accumulated Fund Kshs	Revenue Reserves Kshs	Total Kshs
Shareholders Funds	809,271,518	16,184,715	825,456,233
Net Profit/(Loss) for the year		8,105,703	8,105,703
As at 30th June 2017	809,271,518	24,290,419	833,561,937
	-		-
Net Profit/(Loss) for the year		39,969,105	39,969,105
As at 30th Jun 2018	809,271,518	64,259,523	873,531,041

Kipchabo Tea Factory Ltd
Financial statements
For the year ended 30th June 2019

STATEMENT OF CASHFLOWS

	Note	2018/2019 Kshs	2017/2018 Kshs
Cashflow from Operating Activities			
Operating Profit (Loss)		(7,862,538)	39,969,105
Exchange gain		1,267,051	(1,698,557)
Depreciation of Fixed Assets	2 (d)	59,782,463	55,457,588
Transfer of work in progress to parent Company		4,610,430	-
Profit Before Working Capital Changes		57,797,406	93,728,135
(Decrease) / Increase in Debtors & Prepayments	6	91,779,898	(59,035,652)
Increase / (Decrease) in Creditors & Accruals	7	40,281,140	59,883,245
Increase in Stock	4	(36,201,105)	(24,396,665)
Net Changes in working Capital		95,859,933	(23,549,071)
Net Cash Generated from Operating Activities		153,657,339	70,179,064
Cashflows used in Investing Activities			
Purchase of Fixed Assets	3	(147,288,114)	(50,189,080)
Net Cash (Used) in Investing Activities		(147,288,114)	(50,189,080)
Net Increase in Cash and Cash Equivalents		6,369,226	19,989,983
Movement in Cash and Cash Equivalents			
At 1st July 2018		28,185,540	6,497,000
Effect of exchange gain on cash & cash equivalent		(1,267,051)	1,698,557
Increase/(Decrease) in the year		6,369,226	19,989,983
At 30th Jun 2019	5	33,287,715	28,185,540

Kipchabo Tea Factory Ltd
Financial Statements
For the year ended 30th June 2019

STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNT

	Budget	Actual	Variance	Variance
	2018/2019	2017/2018	Budget Vs Actuals	
	Kshs	Kshs	Kshs	%
Receipts				
Sale of Finished Tea	2,562,242,414	906,426,269	(1,655,816,145)	-65%
Payments				
Green Leaf Intake	810,107,395	543,829,978	266,277,417	33%
Other factory operating expenses	54,998,673	29,000,471	25,998,202	47%
Factory Materials & Consumables	5,130,000	3,642,300	1,487,700	29%
Motor Vehicle & Generator Fuel	36,221,176	26,607,704	9,613,472	27%
Electricity and Water	70,010,982	62,168,707	7,842,275	11%
Factory running expenses	21,428,159	16,462,335	4,965,824	23%
Fuelwood	42,121,208	40,168,060	1,953,148	5%
Manufacturing Labour	68,016,317	22,975,573	45,040,744	66%
Transport of finished tea	23,259,544	21,323,376	1,936,167	8%
Warehousing	27,185,453	12,944,313	14,241,140	52%
Brokerage and Catalogue fee	9,154,183	5,942,714	3,211,469	35%
Advertising Marketing & Publicity	29,378,783	7,482,962	21,895,821	75%
Bank charges	800,000	641,508	158,492	20%
Insurance	12,293,250	3,942,872	8,350,378	68%
Other administrative expenses	27,181,362	22,739,409	4,441,953	16%
Repairs & Maintenance	4,991,045	185,301	4,805,744	96%
Security	2,249,484	2,243,621	5,863	0%
Depreciation	67,738,768	59,782,463	7,956,305	12%
Salaries and wages	161,649,506	60,885,290	100,764,216	62%
Interest on Loan	8,856,250	-	8,856,250	100%
Other incomes				
Interest Income	1,000,000	2,399	(997,601)	-100%
Exchange Gain	-	1,264,652	1,264,652	

Kipchabo Tea Factory Limited
Reports and Accounts
For the Year Ended 30th Jun 2019

NOTES TO THE ACCOUNTS

1. Summary of Significant Accounting Policies

(a) Statement of compliance and basis of preparation

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

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

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

(b) Revenue Recognition

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

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

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

(c) Property Plant & Equipment

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

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

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

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

The annual depreciation rates in use are: -

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

(e) Inventories

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

(f) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted. No provisions for bad debts are made if all debts are concluded to be collectible after assessment.

(g) Accrued expenses – specific and general provisions

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

(h) Financial risk management

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

(i) Related Party disclosures

The company is involved in processing of Green leaf tea some of it delivered by the parent corporation (Nyayo Tea Zones).

Kipchabo Tea Factory Ltd
Financial Statements
For the year ended 30th June 2019

NOTES TO THE ACCOUNTS

	2018/2019	2017/2018
	Kshs	Kshs
2 (a) Turnover		
Sale of Finished Tea	906,426,269	1,145,255,633
	906,426,269	1,145,255,633
2 (b) Cost of Production		
Opening Stock	113,503,929	89,107,265
Green Leaf Intake	543,829,978	736,173,469
Other factory operating expenses	20,035,136	22,995,073
Factory Materials & Consumables	3,642,300	3,603,858
Motor Vehicle & Generator Fuel	26,607,704	5,818,115
Electricity and Water	62,168,707	59,525,354
Factory running expenses	34,215,677	50,530,254
Fuelwood	40,168,060	32,254,120
Manufacturing Labour	22,975,573	18,246,131
Transport of finished tea	21,323,376	15,068,651
Warehousing	12,944,313	8,461,528
Brokerage and Catalogue fee	5,942,714	7,808,240
Less Closing Stock	(149,705,035)	(113,503,929)
	757,652,433	936,088,129
2 (c) Administrative Expenses		
Advertising Marketing & Publicity	7,482,962	3,453,715
Bank charges	641,508	878,005
Insurance	3,942,872	3,790,948
Other administrative expenses	22,739,409	26,124,984
	34,806,750	34,247,653
2 (d) Other Operating expenses		
Light & Water	-	18,017,250
Repairs & Maintenance	185,301	1,212,610
Security	2,243,621	2,036,600
Depreciation	59,782,463	55,457,588
	62,211,385	76,724,048
2 (e) Employment Expenses		
Salaries & Wages	36,852,911	35,494,771
House Allowance	7,149,880	6,229,044
Leave Allowance	909,281	682,544
Commuter & Other Allowance	7,811,590	7,156,949
Medical Expense	5,274,447	4,396,214
Staff Welfare	145,939	122,030
Social Security Expenses	2,741,242	2,446,589
	60,885,290	56,528,141
2 (g) Other income		
Interest Income	2,399	-
Exchange Gain/ (Loss)	1,264,652	(1,698,557)
	1,267,051	(1,698,557)

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

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Note 3	PROPERTY AND EQUIPMENTS								
	Land Kshs	Work-in- Progress Kshs	Factory Buildings Kshs	Factory Machinery Kshs	Furniture & Fixtures Kshs	Office Equipment Kshs	Computers & Accessories Kshs	Motor Vehicles Kshs	Total Kshs
2018/2019									
Cost									
As at 1st Jul 2018	8,044,682	35,723,182	460,669,360	507,345,689	4,193,349	2,048,042	12,561,148	92,601,750	1,123,187,202
Transfer		(4,610,430)							(4,610,430)
Additions	-	69,050,726	1,495,765	70,810,722	-	-	148,400	5,782,500	147,288,114
Reclassification									-
30th June 2019	8,044,682	100,163,478	462,165,125	578,156,411	4,193,349	2,048,042	12,709,548	98,384,250	1,265,864,885
Acum Deprn 1st Jul 2018	-	-	69,888,515	222,178,923	3,805,416	1,404,554	12,363,309	64,266,390	373,907,107
Charge for the year	-	-	9,243,303	37,998,929	55,419	168,649	162,304	12,153,860	59,782,463
Adjustment									-
30th June 2019	-	-	79,131,818	260,177,852	3,860,835	1,573,203	12,525,613	76,420,250	433,689,571
Net Book Value									
30th June 2019	8,044,682	100,163,478	383,033,308	317,978,559	332,514	474,839	183,935	21,964,000	832,175,315
30th June 2018	8,044,682	35,723,182	390,780,845	285,166,766	387,933	643,488	197,838	28,335,360	749,280,095
2017/2018									
Cost									
As at 1st Jul 2017	8,044,682	13,035,860	456,210,224	492,339,116	3,749,997	1,360,345	12,306,148	85,951,750	1,072,998,121
Transfer from Nyayo Tea Zone									-
Additions	-	22,687,322	4,459,137	15,006,573	443,352	687,697	255,000	6,650,000	50,189,080
Disposal									-
30 Jun 2018	8,044,682	35,723,182	460,669,360	507,345,689	4,193,349	2,048,042	12,561,148	92,601,750	1,123,187,202
Acum Deprn 1st Jul 2017	-	-	60,675,128	188,995,601	3,281,247	1,235,905	12,229,169	52,032,470	318,449,520
Charge for the year	-	-	9,213,387	33,183,322	524,169	168,649	134,140.89	12,233,920	55,457,588
On Disposal									-
30 Jun 2018	-	-	69,888,515	222,178,923	3,805,416	1,404,554	12,363,309	64,266,390	373,907,107
Net Book Value									
30 Jun 2018	8,044,682	35,723,182	390,780,845	285,166,766	387,933	643,488	197,838	28,335,360	749,280,095
30th June 2017	8,044,682	-	400,991,455	321,717,224	937,499	-	407,200	29,967,200	762,065,261

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NOTES TO THE ACCOUNTS -Continued

	2018/2019	2017/2018
	Kshs	Kshs
4. Inventories		
Finished Tea at Mombasa Warehouse	52,375,963	75,789,636
Finished Tea at Kipchabo Factory	77,414,856	30,058,644
Fuelwood at Kipchabo factory	8,713,760	7,546,400
Other Inventories	11,200,455	109,250
	149,705,035	113,503,929
5. Cash & Cash Equivalents		
KCB Current Account	11,054,490	24,903,182
CFC Stanbic Bank	21,233,225	3,260,267
Cash in hand	-	22,091
KCB Fixed Deposit	1,000,000	-
	33,287,715	28,185,540
6. Trade Receivables		
Trade Debtors	19,077,378	32,235,537
Other Debtors	31,387,408	38,979,429
Nyayo Tea Zones Devt. Corporation - Advances	420,736,923	491,766,641
	471,201,709	562,981,607
7. Trade and other Payables		
Trade Payables	101,870,429	43,445,876
Green leaf Creditors - Nyayo Tea Zones	461,206,173	479,111,804
Green Leaf Creditors - Outgrowers	56,630,832	53,443,292
Accruals	993,837	4,419,159
	620,701,271	580,420,131
8. Shareholders Funds		
Authorised No. of Shares - 5,000 Shares		
Type of Shares - Ordinary Shares		
Par value per Share Ksh. 20 each		
Total No. of Shares Subscribed - 5,000 Shares		
Value of subscribed Shares - Ksh 100,000	100,000	100,000
Share Premium	809,171,518	809,171,518
Revenue Reserves	64,259,523	24,290,419
Profit / (Loss) for the year	(7,862,538)	39,969,105
	865,668,503	873,531,041

APPENDIX 1: PROGRESS ON FOLLOW UP ON AUDITOR RECOMMENDATIONS

In the previous financial years, the Auditor General issued an unqualified audit opinion on the financial statements of Kipchabo Tea Factory Limited.

Chairperson

Managing Director

Date...30/9/2019...

Date...30/9/2019...