REPUBLIC OF KENYA

# KENYA NATIONAL AUDIT OFFICE



Paper laid
By the Hon. Aden Duale,
Leader of Majority on
Thur 28/8/14

# REPORT

# OF

# THE AUDITOR-GENERAL

# ON

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

# FOR THE YEAR ENDED 30 JUNE 2013


# NEW KENYA CO-OPERATIVE CREAMERIES LIMITED



## Annual Report

## &

## Financial Statements

## 2012/2013

**NEW KENYA CO-OPERATIVE CREAMERIES LIMITED.**

**Content**



**Financial Statements:**

**NEW KENYA CO-OPERATIVE CREAMERIES LIMITED.**

**COMPANY INFORMATION.**

**PRINCIPAL PLACE OF BUSINESS**
CREAMERY HOUSE
DAKAR ROAD, OFF ENTERPRISE ROAD
INDUSTRIAL AREA
P.O.BOX 30131-00100
NAIROBI

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

**BANKERS**
CO-OPERATIVE BANK OF KENYA LIMITED
CO-OPERATIVE HOUSE BRANCH
HAILLE SELASSIE AVENUE
P.O. BOX67881- 00200
NAIROBI

KENYA COMMERCIAL BANK LIMITED
INDUSTRIAL AREA BRANCH
P.O. BOX 18031-00500
NAIROBI

STANDARD CHARTERED BANK LIMITED
INDUSTRIAL AREA BRANCH.
P.O. BOX18081-00500
NAIROBI.

STANBIC BANK LIMITED
INDUSTRIAL AREA BRANCH
P.O.BOX 30550-00100
NAIROBI.

EQUITY BANK LTD
KENPIPE BRANCH
P.O.BOX 75104-00200
NAIROBI

**SOLICITORS**

MEREKA & CO. ADVOCATES
UKULIMA CO-OP HOUSE 7TH FLOOR
P.O. BOX 41620-00100
NAIROBI

J. M. NJENGA & CO. ADVOCATES
TELEPOSTA TOWERS (GPO) 5TH FLOOR
P.O. BOX 1297-00100
NAIROBI

**SECRETARY**

PETER OMBATI
CREAMERY HOUSE
DAKAR ROAD, OFF ENTERPRISE ROAD
P.O. BOX 30131-00100
NAIROBI

**AUDITORS**

AUDITOR GENERAL
KENYA NATIONAL AUDIT OFFICE
P.O. BOX30084-00100
NAIROBI

**PETER OMBATI**

**AG.COMPANY SECRETARY**

**NEW KENYA CO-OPERATIVE CREAMERIES LIMITED.**

**DIRECTORS REPORT**

The directors submit their report and the audited financial statements for the year ended 30 June 2012 which show the state of the company affairs

1. PRINCIPAL ACTIVITY

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

2. OPERATIONS AND INCORPORATION

   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.

3. RESULTS

   The results for the period are as set out on page 5-17

4. DIVIDENDS

   The directors do not recommend the payment of dividend in respect of the year ended 30 June 2013.

5. DIRECTORS

   The Directors who served during the period 1st July 2012 - 30th June 2013 and to the date of this report were:-

| | |
|---|---|
| Matu Wamae | Chairman Re-appointed 1st January 2011 |
| Dr. Kipkirui Langat | Managing Director – Appointed on 8th March 2011 |
| Dr. Kamau Thugge | Appointed on 28th June 2013 |
| *Mrs. Beatrice Gathirwa* | *( Alternate to PS –Treasury)* |
| Dr. Wilson Songa | Appointed on 28th June 2013 |
| *E. M. Irungu* | *(Alternate to PS-Cooperative )* |
| Dr. Khadijah Kassachom | Appointed on 28th June 2013 |
| *Julius Kiptarus* | *(Alternate to PS-Livestock)* |
| David Mogere | Reappointed on 1st January 2011 |
| Riziki Musa Spana | Reappointed on 1st January 2011 |

| | |
|---|---|
| Mary .M.W. Munene | Appointed on 1st^h July 2011 |
| William.W. Kabera | Appointed on 1st^h July 2011 |

By Order of the Board

**PETER OMBATI**

**AG.COMPANY SECRETARY**

**NEW KENYA CO-OPERATIVE CREAMERIES LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

**ON THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2013**

The Companies Act Chapter 486 of the Laws of Kenya requires the Directors to prepare financial statements for each period, which give true and fair view of the state of affairs of the Company as at the end of the financial period and of its operating results for that period. It also requires the Directors to ensure the Company keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility of the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The Directors are of the opinion that the financial statements give a true and fair state of the financial affairs of the Company and of its operating results. The Directors Further accepts responsibility for maintenance of accounting records which may be relied upon in the financial statements, as well as adequate systems of internal financial controls.

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

| Name | Signature | Date |
|---|---|---|
| DR. KIPKIRUI ARAP LANGAT | | 1/10/2013 |
| E. MATU WAMAE | | 1/10/2013 |

# REPUBLIC OF KENYA

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

P.O. Box 30084-00100
NAIROBI

# KENYA NATIONAL AUDIT OFFICE

## REPORT OF THE AUDITOR-GENERAL ON NEW KENYA CO-OPERATIVE CREAMERIES LIMITED FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of New Kenya Co-operative Creameries Limited set out on pages 5 to 17, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

**Auditor-General's Responsibility**

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those

risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

**Basis for Qualified Opinion**

**1. Non-Current Assets**

(i) As previously reported, property, plant and equipment balance of Kshs.2,930,552,894 as at 30 June 2013 includes an amount of Kshs.1,906,927,500 representing the value of forty nine (49) properties whose title documents were not availed for audit verification.

(ii) Further as previously reported, the property, plant and equipment figure of Kshs.2,930,552,894 also excludes fifteen (15) parcels of land and buildings which have not been valued.

(iii) The property, plant and equipment figure of Kshs.2,930,552,894 includes sixteen (16) disputed properties with a value of Kshs.222,500,000 and registered in the name of third parties. However, the valuation report gives a value of Kshs.750,000,000 for the disputed properties.

(iv) Five (5) title deeds for property valued at Kshs.1,104,882,500 are charged and held in a local commercial bank as collateral for an outstanding obligation.

(v) 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.

In the circumstances, and in the absence of title deeds and related records, it has not been possible to confirm the ownership status of the respective properties and that property, plant and equipment balance of Kshs.2,930,552,894 was fairly stated as at 30 June 2013.

**2. Trade Receivables and Prepayments**

Trade receivables and prepayments balance stood at Kshs.1,471,141,843 as at 30 June 2013. However, the following observations have been made-:

(i). Included in this balance are refer to drawer cheques amounting to Kshs.27,750,465, some of which have been outstanding for over one year.

(ii). Further, included in trade receivables and prepayments balance are staff debts amounting to Kshs.22,404,646, out of which an amount of Kshs.9,140,885 relates to staff who left the Company although the amount has been fully provided for.

(iii). As previously reported, the balance also includes Kshs.4,948,922 owed by a firm in respect of goods supplied by the Company and the firm has disputed the debt. Arbitration efforts have not achieved any results.

In the circumstances, it has not been possible to confirm the recoverability of trade receivables and prepayments balance of Kshs.1,471,141,844 and that the trade receivables and prepayments balance was fairly stated as at 30 June 2013.

**Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2013, 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, Cap.486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,

iii. The Company's statement of financial position is in agreement with the books of account.

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

**Nairobi**

**29 April 2014**

**NEW KENYA CO-OPERATIVE CREAMERIES LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 30 JUNE 2013**

| | Note | JUNE 2013 Ksh | June 2012 Ksh |
|---|---|---|---|
| Revenue | 2 | 6,441,747,368 | 7,626,675,193 |
| Cost of sales | | (5,277,808,029) | (5,817,680,753) |
| **Gross profit** | | **1,163,939,339** | **1,808,994,440** |
| Other Operating income | 3 | 22,248,317 | 13,039,072 |
| Selling and Distribution Costs | 4 | (696,895,876) | (774,585,445) |
| Administrative Expenses | 5 | (694,793,702) | (579,087,489) |
| **Operating profit** | | **(205,501,923)** | **468,360,579** |
| Financing costs | 6 | (179,351,525) | (166,006,087) |
| **Profit/(Loss) before Taxation** | | **(384,853,447)** | **302,354,492** |
| Tax credit / (expense) | 9 | **150,998,402** | (53,577,794) |
| **Profit/(Loss)for the period** | | **(233,855,045)** | **248,776,698** |
| Profit/(Loss)per share | 10 | **(4.28)** | **4.55** |

**NEW KENYA CO-OPERATIVE CREAMERIES LIMITED**

**STATEMENT OF FINANCIAL POSITION**

**AS AT 30 JUNE 2013**

| | Note | 2013 | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | 2,930,552,894 | 3,335,881,489 |
| Prepaid Leases on land | 12 | 834,735,474 | 851,846,448 |
| Investments | 13 | 6,456,475 | 6,456,475 |
| | | **3,771,744,843** | **4,194,184,411** |
| **CURRENT ASSETS** | | | |
| Inventories | 14 | 1,577,561,136 | 861,542,304 |
| Receivables and prepayments | 15 | 1,471,141,843 | 1,132,359,127 |
| Cash and cash equivalents | 16 | 45,599,951 | 56,171,953 |
| | | **3,094,302,930** | **2,050,073,385** |
| **TOTAL ASSETS** | | **6,866,047,773** | **6,244,257,796** |
| **EQUITY AND LIABILITIES** | | | |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 17 | 547,028,870 | 547,028,870 |
| Revenue Reserves | | 1,747,735,424 | 1,981,590,470 |
| Revaluation Reserves | | 2,397,979,077 | 1,855,678,798 |
| | | **4,692,743,371** | **4,384,298,138** |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowing | 18 | 202,797,245 | 218,454,366 |
| Deferred tax | 19 | 73,732,280 | 227,829,223 |
| | | **276,529,525** | **446,283,589** |
| **CURRENT LIABILITIES** | | | |
| Bank Overdraft | 18 | 798,738,328 | 225,001,221 |
| Borrowing | 18 | 116,705,163 | 190,428,802 |
| Payables and accruals | 20 | 905,495,827 | 843,344,391 |
| Gratuity Senior Staff | 21 | 58,580,227 | 40,814,986 |
| Tax payable | 22 | 17,255,330 | 114,086,668 |
| | | **1,896,774,876** | **1,413,676,069** |
| **TOTAL EQUITY AND LIABILITIES** | | **6,866,047,773** | **6,244,257,796** |

The financial statements on pages 5 to 17 were approved and authorized for issue by the board of Directors on 1st of October, 2013 and were signed on its behalf by ;

**DR.KIPKIRUI.ARAP LANG'AT.OGW**
**Managing Director**

**MATU WAMAE**
**Chairman**

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

| | Notes | Share Capital | Revaluation reserve | Revenue reserve | Total |
|---|---|---|---|---|---|
| | | Ksh | Ksh | Ksh | Ksh |
| **Year ended 30th June 2011** | | | | | |
| At 1 July 2011 | | **547,028,870** | **2,553,619,700** | **1,732,813,772** | **4,833,462,342** |
| Revaluation reserve | (a) | - | (697,940,901) | | (697,940,901) |
| Net surplus/ (deficit) for the year | | - | | 248,776,698 | 248,776,698 |
| **At 30th June 2012** | | **547,028,870** | **1,855,678,798** | **1,981,590,470** | **4,384,298,138** |
| **Year ended 30th June 2012** | | | | | |
| At 1 July 2012 | | **547,028,870** | **1,855,678,798** | **1,981,590,470** | **4,384,298,138** |
| Revaluation reserve | (a) | - | 542,300,279 | | 542,300.279 |
| Net surplus/ (deficit) for the year | | - | - | (233,855,045) | (233,855,045) |
| **At 30th June 2013** | | **547,028,870** | **2,397,979,077** | **1,747,735,425** | **4,692,743,371** |

**Notes(a)**

The Assets Revaluation was done by Ms Tysons Limited completed on 15th November 2010. NKCC LTD policy requires that a regular Asset valuation of its Assets is carried out periodically. The Assets that were revalued include Land & Buildings, Plant & machinery and Furniture. The professional opinion/basis by Ms Tysons Limited is as follows:

**a) Land:-**
The land has been valued on the basis of Market Value for the existing use, but taking into consideration the Highest and Best use.

**b) Developed land (Land and buildings housing the company operations)**
For factories, commercial and residential properties, a triangulation and comparison of three methods that is Sales Comparison Approach, Income Capitalization Approach and Cost Approach has been used to arrive at what is the reasonable market value for existing use.

**c) Plant & Machinery and Furniture.-**
The basis of valuation for these items is defined as the Net Current Replacement Cost. This is derived by depreciating Gross Replacement Cost to reflect the physical condition, remaining portion of total economic working life and level of obsolescence due to technological advancement. The Gross Current Replacement Cost from which the Net Current Replacement Cost is derived is the cost of replacing the asset, including the cost of installation with an asset in new condition having similar useful output or service capacity.

**The charge to the revaluation reserve relates to two entries;**
i) The annual amortization charge of Ksh 77,820,311 for the current year.
ii) The amount of Ksh 620,120,590 is a one off reversal adjustment of revaluation reserve in the current year, it relates to prior revaluation correction before the current revaluation was undertaken in the financial year 2010/2011.

**NEW KENYA CO-OPERATIVE CREAMERIES LIMITED**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 30TH JUNE 2013**

| | Notes | ACTUAL 30TH JUNE 2013 KSHS | ACTUAL 30TH JUNE 2012 KSHS |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 23 | (150,263,017) | 570,801,734 |
| Interest paid | 6 | (161,474,880) | (144,303,708) |
| Income tax paid | 22 | (99,929,879) | - |
| **Net cash generated from operating activities** | | **(411,667,776)** | **426,498,026** |
| CASH FLOWS TO/FROM INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment | 11 | (83,260,573) | - (171,589,918) |
| **Net cash flows used in investing activities** | | **(83,260,573)** | **- (171,589,918)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of borrowings | | (89,380,760) | - (177,630,553) |
| Dividend paid | | - | - |
| Investment | | - | - |
| **Net cash used in financing activities** | | **(89,380,760)** | **- (177,630,553)** |
| **NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENT** | | **(584,309,110)** | **77,277,555** |
| CASH AND CASH EQUIVALENTS AT START OF THE YEAR | | (168,829,268) | - (246,106,823) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **16** | **(753,138,378)** | **- (168,829,268)** |

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 1. SIGNIFICANT ACCOUNTING POLICIES

### a). Basis of Accounting

The financial statements of New Kenya Co-operative Creameries Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprises standards and interpretations by IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by IASC that remain in effect.

**Changes in accounting policy and disclosures**

In preparation of the accounts and in conformity with IAS 1 (Presentation of financial statements) standards the company has incorporated relevant disclosures to the financial statements.

The financial statements are prepared on the historical cost basis of accounting.

### b). Revenue Recognition

Sales are recognized upon the delivery of the products and customer acceptance, net of value added taxes. Rent and other incomes are recognized on receipt basis.

### c) . Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at revalued amounts. The revaluation was conducted by Tysons limited as at 30.11.2010.

The revaluation reserve is being amortized annually at a rate of Kshs.77,820,311 until the earlier of exhausting the amount of the revaluation reserve or another revaluation of assets is undertaken.

Depreciation is calculated on the straight line basis, at annual rates Estimated to write off the carrying values of the assets over their expected useful lives. The rates have been applied to values before revaluation.

| The annual depreciation 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.

### d). Leases of Land

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.

### e). Stocks

Stocks are valued at the lower of cost and net realizable value. Cost comprises expenditure incurred in the normal cause 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

**f). Foreign Currency**

Transactions during the period are converted into Kenya shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currency are translated into Kenya shilling at the rate ruling at the date. The resulting differences from conversions and translations are recognized as foreign exchange gains/losses in the profit and loss account.

**g). Retirement Benefit Costs**

The company operates a provident scheme for its employees. The assets of the scheme are held in a separate trustee administered fund.
The company also contributes to a statutory defined contribution pension scheme, The National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs 200 per employee per month.
The company's contributions to the above schemes are charged to a profit and loss account in the period to which they relate.

**h). Employee Entitlement**

Employee entitlement to gratuity and long service awards are recognized when they accrue to employees.
A provision is made for the liability for such entitlements as a result of services rendered by employees up to the balance sheet date.
The monetary liability for employees' accrued annual leave entitlements at the balance sheet date is recognized as an expense accrual.

**i). Bad and Doubtful Debts**

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

**j). Taxation**

Current taxation is provided for on the basis of the results for the period as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be used

**k). Cash and Cash Equivalents**

Cash and Cash equivalents include cash in hand, Cash at bank and deposits held at call with bank with original maturity of three months or less.

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS CONT.

FOR THE YEAR ENDED 30 JUNE 2013

| | | 30th June 2013 | 30th June 2012 |
|---|---|---|---|
| 2) | **Revenue** | | |
| | Liquid Milk | 4,954,660,468 | 6,057,015,822 |
| | Other dairy products | 1,565,433,334 | 1,716,151,568 |
| | Less Transport rebates and Discounts | (78,346,434) | (146,492,196) |
| | | **6,441,747,368** | **7,626,675,194** |
| 3) | **Other Operating Income** | | |
| | Rent | 10,328,470 | 7,286,565 |
| | Other miscellaneous income | 11,919,847 | 5,752,507 |
| | | **22,248,317** | **13,039,072** |
| 4) | **Selling and Distribution Costs** | | |
| | Distribution Costs | 347,092,358 | 401,289,090 |
| | Advertising and Promotion | 51,663,814 | 66,228,640 |
| | Selling Expenses | 298,139,704 | 307,067,715 |
| | | **696,895,876** | **774,585,445** |
| 5) | **Administrative Expenses** | | |
| | Staff Costs | 266,625,055 | 236,295,511 |
| | Director Expenses | 10,813,976 | 14,852,705 |
| | Administrative Expenses | 417,354,671 | 327,939,273 |
| | | **694,793,702** | **579,087,489** |
| 6) | **Finance Costs** | | |
| | Bank Charges and Commission | 20,606,649 | 21,921,270 |
| | Exchange Loss/Gain | (2,730,004) | (218,891) |
| | Interest on Overdraft | 112,072,816 | 102,905,178 |
| | Interest on Loan | 49,402,065 | 41,398,530 |
| | | **179,351,525** | **166,006,087** |
| 7) | **Profit/(Loss) before tax is arrived at after charging /(Crediting):** | | |
| | Depreciation on Plant, Property and Equipment | 427,008,465 | 433,998,577 |
| | Trade Receivable-Provison for Impairment Losses | 50,951,851 | 3,288,958 |
| | Loss on disposal of plant, property and equipment | 871,365 | - |
| | Repairs and Maintenance | 19,008,347 | 16,827,271 |
| | Employee benefits expenses(note 7) | 649,612,973 | 607,157,924 |
| | Directors emoluments | 10,813,976 | 14,852,705 |
| | Auditors Remuneration | 1,980,000 | 1,500,000 |

| | | 30th June 2013 | 30th June 2012 |
|---|---|---|---|
| 8) | **Employee Benefits Expense** | | |
| | Salaries and Wages | 641,140,128 | 556,188,204 |
| | Pension cost- Company Contribution | 26,379,131 | 23,322,382 |
| | National Social Security Fund | 3,584,959 | 4,904,277 |
| | Leave provision | (21,491,245) | (6,410,460) |
| | | **649,612,973** | **578,004,403** |
| 9) | **Income Tax Expense** | | |
| | Current tax | 3,098,541 | 179,265,258 |
| | | | - |
| | Deferred tax | (154,096,943) | (125,687,464 ) |
| | Under/(over)provision of deferred tax prior years | | |
| | Tax on business income | - | 53,577,794 |
| | Tax on rent income | 3,098541 | - |
| | **Total tax expense** | **(150,998,402)** | **53,577,794** |

10) **Earnings per share**

Earnings per share is calculated by dividing the profit/(loss) attributable to the owners of the company by the weighted average number of ordinary shares

| | | |
|---|---|---|
| Basic earnings per share | **(4.28)** | **4.55** |

11).PLANT, PROPERTY & EQUIPMENT

| | Building<br>Ksh | Machinery &plant<br>Ksh | Equipment & Loose Tools<br>Ksh | Furniture &fittings<br>Ksh | Cans &crates<br>Ksh | Autos &trucks<br>Ksh | Computer & Accessories<br>Ksh | Freehold Land | Capital w.i.p<br>Ksh | Total<br>Ksh |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost**<br>1st July2011 | 2,506,731,424 | 1,731,460,410 | 33,162,890 | 12,734,393 | 88,950,075 | 373,664,271 | 213,305,402 | 150,000,000 | 201,503,097 | 5,311,511,962 |
| Additions | 1,470,895 | 21,589,406 | 837,396 | 658,386 | 4,270,408 | 32,612,315 | 105,986,355 | | 4,164,758 | 171,589,919 |
| Transfers To Fixed Assets | 4,395,274 | 107,176,852 | | | | | | | (111,572,127) | 0 |
| Disposals | - | | | | (2,579,301) | | | | | -2,579,301 |
| **30th june 2012** | **2,512,597,594** | **1,860,226,668** | **34,000,286** | **13,392,779** | **90,641,182** | **406,276,586.00** | **319,291,757** | **150,000,000** | **94,095,728** | **5,480,522,579** |
| **Depreciation**<br>1st July2011 | **882,512,368** | **282,205,344** | **9,012,327** | **2,611,857** | **74,097,116** | **295,628,757** | **106,444,707** | | | **1,652,512,476** |
| Charge | 125,420,278 | 226,579,126 | 3,550,554 | 1,625,143 | 10,245,403 | 43,250,514 | 84,036,897 | | - | 494,707,915 |
| Disposals | - | | - | - | (2,579,301) | | | | - | -2,579,301 |
| **Depreciation**<br>30thJune 2012 | **1,007,932,646** | **508,784,470** | **12,562,881** | **4,237,000** | **81,763,218** | **338,879,271** | **190,481,604** | | **0** | **2,144,641,090** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **N.B.V 30.06.2012** | **1,504,664,948** | **1,351,442,199** | **21,437,405** | **9,155,779** | **8,877,963** | **67,397,315** | **128,810,153** | **150,000,000** | **94,095,728** | **3,335,881,489** |
| **Cost** 1st July2012 | 2,512,597,594 | 1,860,226,668 | 34,000,286 | 13,392,779 | 90,641,182 | 406,276,586 | 319,291,757 | 150,000,000 | 94,095,728 | 5,480,522,579 |
| Additions | 7,538,591 | 37,946,990 | 6,456,879 | 599,136 | 7,740,832 | 3,268,029 | 5,695,524 | | 14,014,593 | 83,260.573 |
| Transfers To Fixed Assets | 6,614,091 | 59,491,506 | | | | | 8,794,800 | | (74,900,397) | - |
| Disposals | | | | | | (14,895,191.17) | | | | -14,895,191 |
| **30th june 2013** | **2,526,750,276** | **1,957,665,164** | **40,457,165** | **13,991,915** | **98,382,014** | **394,649,424** | **333,782,081** | **150,000,000** | **33,209,924** | **5,548,887,962** |
| **Depreciation** 1st July2012 | **1,007,932,646** | **508,784,470** | **12,562,881** | **4,237,000** | **81,763,218** | **338,879,271** | **190,481,604** | | **0** | **2,144,641,090** |
| Charge | 126,025,263 | 235,245,042 | 3,918,191 | 1,729,166 | 6,590,429 | 34,544,447 | 79,665,265 | | | 487,717,803 |
| Disposals | | | | | | (14,023,825.94) | | | | (14,023,825.94) |
| **Depreciation** 30th June 2013 | **1,133,957,909** | **744,029,511** | **16,481,072** | **5,966,166** | **88,353,647** | **359,399,892** | **270,146,870** | | **0** | **2,618,335,068** |
| **N.B.V 30.06.2013** | **1,392,792,367** | **1,213,635,653** | **23,976,093** | **8,025,748** | **10,028,367** | **35,249,532** | **63,635,211** | **150,000,000** | **33,209,924** | **2,930,552,894** |

Included in property, plant and equipment are 15(fifteen) properties that were acquired from Kenya Co-operative Creameries (2000) Limited whose ownership is in dispute and are in possession of third parties. The company has initiated legal process on the disputed properties. The directors are of the opinion that the company holds good title to the assets and therefore, no provision has been made in the financial statements to cater for any loss that might arise. In addition, the title documents on some properties are not in the name of the company. The directors are of the opinion that the transfer of these properties to the company will be finalized soon and no loss is expected to arise.

**NEW KENYA CO-OPERATIVE CREAMERIES LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS CONT.**
**FOR THE YEAR ENDED 30 JUNE 2013**

| | | 30th June 2013 | 30th June 2012 |
|---|---|---|---|
| **12)** | **Prepaid leases on land** | | |
| | Cost | | |
| | 1st July 2012 | 911,089,220 | 911,089,220 |
| | Revaluation | - | - |
| | Disposals | | |
| | **30th June 2012** | **911,089,220** | **911,089,220** |
| | Depreciation | | |
| | 1st July 2012 | 59,242,772 | 42,131,799 |
| | Charge | 17,110,973 | 17,110,973 |
| | Disposals | | |
| | **30th June 2012** | **76,353,745** | **59,242,772** |
| | Net book values | | |
| | 30th June 2013 | 834,735,474 | 851,846,448 |
| | 1st July 2012 | 851,846,448 | 868,957,421 |
| **13)** | **Investments** | 6,456,475 | 6,456,475 |
| **14)** | **Inventories** | | |
| | Raw Materials | 25,050,791 | 18,903,345 |
| | Packaging Materials | 185,639,326 | 215,500,419 |
| | Finished Goods | 939,402,013 | 214,834,154 |
| | Work in Progress | 19,814,800 | 3,581,461 |
| | Stores and Supplies | 407,654,206 | 408,722,925 |
| | | **1,577,561,136** | **861,542,304** |
| **15)** | **Receivables & Prepayments** | | |
| | Trade Receivables | 939,411,513 | 759,155,124 |
| | Less :Provision for Bad Debts | (146,184,308) | (141,253,855) |
| | | **793,227,205** | **617,901,269** |
| | Prepayments | 535,827 | |
| | Amounts due from related parties(Note 20) | 8,563,386 | 8,563,386 |
| | Other Receivables | 668,815,426 | 505,894,473 |
| | | **1,471,141,843** | **1,132,359,127** |

**Note:**
The difference of Ksh. 8,563,386 between published financial report of 2011/12 and closing receivables balance of 2011/12 as reported in the current year is as a result of reorganized reporting format. The figure has now been included as part of receivables both for the current year and 2011/12.

| | | | |
|---|---|---|---|
| **16)** | **Cash and Cash equivalents.** | | |
| | Cash and bank balances | **45,599,951** | **56,171,953** |
| | For the purposes of the cash flow statement , cash and cash equivalents comprise the following | | |
| | Cash and bank balances as above | 45,599,951 | 56,171,953 |
| | Bank overdraft | (798,738,328) | 225,001,221 |
| | | **(753,138,378)** | **281,173,174** |
| **17)** | **Share capital** | | |
| | **Authorized:**200,000,000 Ordinary shares of Kshs. 10 each | | |
| | **Issued and fully paid:** | | |
| | 54,702,887 Shares of Ksh 10 each | 547,028,870 | 547,028,870 |
| | | **547,028,870** | **547,028,870** |

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

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS CONT.
FOR THE YEAR ENDED 30 JUNE 2013

**18) Borrowings**

| | | |
|---|---|---|
| **Non-current** | | - |
| Bank Borrowings | **202,797,245** | **218,454,366** |
| **Current Portion** | | |
| Bank Overdraft | 798,738,328 | 225,001,221 |
| Bank Borrowings | 116,705,162 | 190,428,802 |
| | **915,443,491** | **415,430,023** |
| **Total Borrowings** | **1,118,240,737** | **633,884,389** |

**19) Deferred Tax**

| | | |
|---|---|---|
| Balance as at 1st -July 2012 | 227,829,223 | 353,516,687 |
| Deferred tax movement current year | | (125,687,464) |
| | (154,096,943) | |
| | - | |
| Prior year adjustment at close of current year | | |
| | **73,732,280** | **227,829,223** |

**20) Payables and Accrued Expenses**

| | | |
|---|---|---|
| Trade payables | 783,435,563 | 639,547,278 |
| Amounts due to related parties(Note 24 ) | 2,995,884 | 2,995,884 |
| Accrued expenses and other payables | 119,064,380 | 200,801,229 |
| | **905,495,827** | **843,344,391** |

**Note:**
The difference of Ksh. 2,995,884 between published financial report of 2011/12 and the closing balances of 2011/12 as reported in the current year is as a result of reorganized reporting format. The figure is now included as part of payables for both the current year and the financial year 2011/12.

| | | |
|---|---|---|
| **21) Gratuity for Senior Management staff** | 58,580,227 | 40,814,986 |

**22) Taxation Payable**

| | | |
|---|---|---|
| Taxation Payable as at 1-7-2012 | 114,086,668 | (65,178,590) |
| Current tax | 3,098,541 | 179,265,258 |
| Deffered Tax | | |
| Under/(Over)Provision of Deffered Tax Prior Year | | |
| Total Tax | 117,185,209 | 114,086,668 |
| Less Prior Year Tax &Current Year Installment Paid | (99,929,879) | |
| **Tax Payable** | **17,255,330** | **114,086,668** |
| Taxes Paid During The Year | | |
| Final Tax 2011/2012 | 57,131,605 | - |
| 1st Installment of 2012/2013 | 42,798,274 | |
| 2nd Installment of 2012/2013 | | |
| 3rd Installment of 2012/2013 | | |
| 4th Installment of 2012/2013 | - | - |
| **Total** | **99,929,879.00** | - |

## 23) Cash Generated from Operations

Reconciliation of profit before income tax to cash generated from operations

| | | |
|---|---|---|
| Profit(Loss) before interest expense | **(223,378,567)** | **446,658,200** |
| Adjustments for: | | |
| Depreciation on property, plant and equipment | 427,008,465 | 433,998,577 |
| Revaluation reserve amortization | 620,120,590 | |
| Loss on disposal of property, plant and equipment | 871,365 | - |
| **Changes in Working Capital:** | | |
| Inventories | (716,018,832) | 255,530,865 |
| Receivables and prepayments | (338,782,716) | (135,249,974) |
| Payables and accrued expenses | 79,916,677 | (430,135,934) |
| Cash generated from operations | **(150,263,017)** | **570,801,734** |

## 24) Related Party Transactions

NKCC Limited is incorporated under the Companies Act with 100% Government of Kenya Shareholding.

i) Outstanding balances arising from Sale and purchase of goods/services.

| | | |
|---|---|---|
| Amount due from related parties: | | |
| Kenya Dairy Board | **8,563,385.61** | **8,563,386** |
| Amount due to related parties: | | |
| Govt of Kenya | **2,995,884.00** | **2,995,884** |

## 25) Contingent liabilities

**(i)** As at 30th June 2013 the company had given guarantees amounting to Ksh 21,400,341.72 to various Companies and individuals.

**(ii)** 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.

## 26) Extra- Ordinary Item

An industrial fire outbreak at our Powder factory in Sosiani on 15th June 2012 resulted in damage to equipment. The factory has seen been rehabilitated at a cost of Ksh 52,177,120 and is now complete and is back to operations.. The Company lodged claim with the insurers for both material damage and the loss of profits. NKCC is currently awaiting compensation on the loss of profit at amounts to be underwritten by the insurers. The factory shutdown, has contributed to the decline in revenue. The loss from this event is part of the business loss recorded by the company in the financial statement