

REPUBLIC OF KENYA



*Tabled by the  
Leader of the  
Majority in the  
Afternoon of 11/3/14  
in the Table of the  
House. J. Gino*

**KENYA NATIONAL AUDIT OFFICE**



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KIPCHABO TEA FACTORY LIMITED,  
SUBSIDIARY OF NYAYO TEA ZONES  
DEVELOPMENT CORPORATION**

**FOR THE YEAR ENDED  
30 JUNE 2014**

*V. 4*



**KIPCHABO TEA FACTORY LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH JUNE 2014**

KENYA NATIONAL AUDIT OFFICE  
P. O. Box 30084 - 00100, NAIROBI.  
16 FEB 2015  
**RECEIVED**

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## **CHAIRMAN'S STATEMENT**

### **General**

I am delighted to present to you the Annual Report and financial statements of Kipchabo Tea Factory Limited for the year ended 30 June 2014. The Factory is a wholly owned subsidiary of Nyayo Tea Zones Development Corporation.

The year 2013/2014 was a challenging year for the tea industry and the Company mainly due to falling prices of tea at the global market that declined by an average of 45% compared to previous three years. The company increased its capacity to process green leaf and started engaging out growers in the second half of the year.

### **Financial Results**

During the year volumes of processed tea sold increased by 37% to 1,655,125 Kgs compared to 1,202,793 Kgs in the previous year. Despite the huge increase in volumes the revenue realized increased marginally by 1% to Ksh. 302 Million compared to Ksh. 296.6 Million in the previous year. This is attributed to the sharp decline in prices at the Mombasa Tea Auction where over 96% of our tea was sold. The average tea prices dropped by 45% which is an all-time low since the Company started operations. Operating expenses increased by 21% to Ksh. 162.7 Million compared to Ksh. 134.4 Million in the previous year. Other income primarily interest from investment in excess funds reduced by 53% to Ksh. 2.1 million compared to Ksh. 4.5 Million in the previous year.

The above factors had a significant negative impact on our bottom line as the operating loss increased to Ksh. 57.8 million compared to a profit of Ksh 3.6 Million realized in the previous year.

### **Operations**

Total green leaf received by the factory was 9,095,081 Kgs of which 1,428,911 Kgs was from out growers which is an increase of 47% compared to 6,177,238 Kgs in

the previous year. The Company engaged out grower during the second half of the year to utilize the excess capacity.

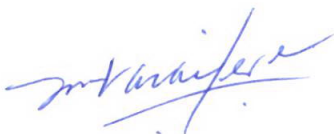
Processed tea volumes increased by 47% to 2,059,459 Kgs compared to 1,396,998 Kgs in the previous year giving an outturn of 22% (2012/2013 - 22.6%). Intake from out growers is expected to double in the next financial year which will also boost volume of processed tea.

### **Future outlook**

The factors affecting global prices are expected to persist in the next financial year and prices are not expected to recover in the near future. The company is making key strategic initiatives to cushion itself from market volatility by aggressive marketing in the local market. We have introduced new brands in the market and our aim is to increase the volumes sold in the local market where the prices are stable. Through the commercial unit we are blending teas to target local consumers as well as looking for direct bulk exports at negotiated higher prices. If the weather conditions in the country become drier our expectation is that supply will be reduced thereby pushing up demand and prices at the auction.

### **Appreciation**

I take this opportunity to appreciate the valuable support given by our stake holders namely the customers, suppliers, bankers and the local community. In 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.



**CHAIRMAN**

## **CORPORATE INFORMATION**

### **Board of Directors:**

Mr. Mathew Iteere – Chairman

Mr. Peter K. Korir - Managing Director

Ms. Angeline M. Savala – Member

Mrs. Faith J. Boinett – Member

Mr. John N. M. Nyaga – Member

Mr. David K. Ruto – Member

Mr. Ceaser N. Wanjao – Member

Mrs. Lucy N. Njenga – Member (Alternate to Principal Secretary Ministry of Agriculture)

Mr. James Aloyo – Member (Alternate to Principal Secretary Treasury)

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

Nyayo House- 11 Floor

Kenyatta Avenue

P.O. Box 48552 - 00100

**NAIROBI**

### **Auditors:**

Auditor-General

Anniversary Towers

P.O. Box 30084-00100

**NAIROBI**

### **Bankers:**

Kenya Commercial Bank Ltd

Kipande House Branch

P.O. Box 30012

**NAIROBI**

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30 June 2014, which disclose the state of affairs of the Corporation.

### Incorporation

The Corporation is registered in Kenya through a Gazette notice LN265/1986 as a parastatal and is resident in Kenya, while its whole owned subsidiary (Kipchabo Tea Factory Ltd) is registered in Kenya under the companies Act (Cap.486) registration certificate number CPR/2010/33168.

### Principal Activity

The corporation principal activity is conservation of gazetted forests through establishment of tea buffers and fuelwood plantations.

### Results

	2013/2014 (Ksh)	2012/2013 (Ksh)
Profit /(Loss) before tax	(57,843,079)	3,631,476
Net Profit/ (Loss) for the year	<u>(57,843,079)</u>	<u>3,631,476</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

**DIRECTOR**

NAIROBI

.....2014..... | ..... 2015

## 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.

Director  .....

Date 20/01/2015 .....

Director  .....

Date 20/01/2015 .....



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NAIROBI HUB  
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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KIPCHABO TEA FACTORY LIMITED, SUBSIDIARY OF NYAYO TEA ZONES DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kipchabo Tea Factory Limited set out on pages 1 to 8 which comprise the statement of financial position as at 30 June, 2014, 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 its 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 these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003. 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

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

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

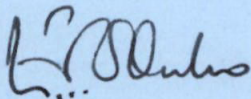
### **Opinion**

In my opinion, the financial statements present fairly, in all material respects the financial position of the Company as at 30 June, 2014, 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 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; and,
- 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**


**21 January 2015**

	Notes	2013/2014 Kshs	2012/2013 Kshs
Turnover	2 (a)	302,018,168	296,636,967
Cost of Production	2 (b)	(182,368,237)	(142,973,528)
<b>Gross Profit</b>		<b>119,649,931</b>	<b>153,663,438</b>
Administrative Expenses	2 (c)	(73,010,317)	(57,572,785)
Other Operating Expenses	2 (d)	(89,644,492)	(76,777,682)
<b>Operating Profit Before finance Costs</b>		<b>(43,004,877)</b>	<b>19,312,971</b>
Finance Costs	2 (e)	(16,919,805)	(20,179,092)
<b>Profit before Exceptional Item</b>		<b>(59,924,682)</b>	<b>(866,120)</b>
Other income	2(f)	2,081,603	4,497,596
<b>Net profit/(loss) for the year</b>		<b>(57,843,079)</b>	<b>3,631,476</b>

KIPCHABO TEA FACTORY LIMITED  
STATEMENT OF FINANCIAL POSITION  
AS AT 30th Jun 2014

	Notes	2013/2014 Ksh.	2012/2013 Ksh.
<b><u>PLANT PROPERTY &amp; EQUIPMENT</u></b>			
Property, Plant & Equipment	3	828,694,933	771,319,988
<b><u>CURRENT ASSETS</u></b>			
Inventories	4	162,399,627	91,703,063
Trade Receivables	6	28,994,118	16,992,247
Cash & Bank Balances	5	56,051,149	108,787,389
<b>TOTAL CURRENT ASSETS</b>		<b>247,444,893</b>	<b>217,482,699</b>
<b><u>CURRENT LIABILITIES</u></b>			
Trade & Other Payables	7	325,547,041	200,655,472
<b>TOTAL CURRENT LIABILITIES</b>		<b>325,547,041</b>	<b>200,655,472</b>
<b>NET CURRENT ASSETS</b>		<b>(78,102,147)</b>	<b>16,827,227</b>
<b>TOTAL NET ASSETS</b>		<b>750,592,786</b>	<b>788,147,216</b>
<b><u>FINANCED BY</u></b>			
Ordinary Shares		100,000	100,000
Share Premium	8	809,171,518	788,882,869
Revenue Reserves		(58,678,732)	(835,653)
<b>TOTAL CAPITAL</b>		<b>750,592,786</b>	<b>788,147,216</b>

The financial statements were approved by the Board of Directors on 20/01/2015  
and were signed on its behalf by:-

  
..... DIRECTOR

  
..... DIRECTOR

**STATEMENT OF CHANGES IN EQUITY**  
**2013/2014**

	Note	Share Capital & Premium Kshs	Revenue Reserves Kshs	Total Kshs
Balance brought forward 1st July 2012		762,229,663	(4,467,129)	757,662,533
Shareholders capital injection 2012/13		26,753,206		26,753,206
Net Profit/(Loss) for the year			3,631,476	3,631,476
<b>As at 30th June 2013</b>		<b>788,982,869</b>	<b>(835,653)</b>	<b>788,147,215</b>
Shareholders capital injection 2013/14		20,288,649		20,288,649
Net Profit/(Loss) for the year			(57,843,079)	(57,843,079)
<b>As at 30th Jun 2014</b>		<b>809,271,518</b>	<b>(58,678,732)</b>	<b>750,592,786</b>

**STATEMENT OF CASHFLOWS**

	Note	2012/2013 Kshs	2012/2013 Kshs
<b>Cashflow from Operating Activities</b>			
Operating Profit (Loss)		(57,843,079)	3,631,476
Depreciation of Fixed Assets		47,258,010	39,941,039
<b>Profit Before Working Capital Changes</b>		<b>(10,585,069)</b>	<b>43,572,515</b>
(Decrease) / Increase in Debtors & Prepayments		(12,001,870)	(9,787,515)
Increase / (Decrease) in Creditors & Accruals		124,891,569	144,942,481
Increase in Stock		(70,696,564)	(49,456,319)
<b>Net Changes in working Capital</b>		<b>42,193,134</b>	<b>85,698,647</b>
<b>Net Cash Generated from Operating Activities</b>		<b>31,608,065</b>	<b>129,271,162</b>
<b>Cashflows used in Investing Activities</b>			
Purchase of Fixed Assets		(104,632,954)	(109,438,249)
<b>Net Cash (Used) in Investing Activities</b>		<b>(104,632,954)</b>	<b>(109,438,249)</b>
<b>Cashflows (Used) in Financing Activities</b>			
Equity Contribution		20,288,649	26,753,206
<b>Net Cash from/(Used) in Financing Activities</b>		<b>20,288,649</b>	<b>26,753,206</b>
<b>Net Increase in Cash and Cash Equivalents</b>		<b>(52,736,240)</b>	<b>46,586,119</b>
<b>Movement in Cash and Cash Equivalents</b>			
At 1st July 2013		108,787,389	62,201,270
Increase/(Decrease) in the year		(52,736,240)	46,586,119
<b>At 30th Jun 2014</b>	<b>5</b>	<b>56,051,149</b>	<b>108,787,389</b>

**NOTES TO THE ACCOUNTS**

**1. Summary of Significant Accounting Policies**

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

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of Kipchabo Tea Factory and all values are rounded to the nearest thousand (Kshs'000).

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%
Machinery	6.65%
Furniture & Fixtures	12.5%
Office Equipment	20%
Computers & Electronic typewriters	33.33.%
Motor Vehicles	20%

**(e) Inventories**

Finished Tea and Other inventories are stated at the lower of cost and net realisable value. 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.

**NOTES TO THE ACCOUNTS**

	<b>2013/2014</b>	<b>2012/2013</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>2 (a) Turnover</b>		
Sale of Finished Tea	302,018,168	296,636,967
	<b>302,018,168</b>	<b>296,636,967</b>
<b>2 (b) Cost of Production</b>		
Opening Stock	91,703,063	42,246,744
Green Leaf Intake	218,281,955	159,293,783
Other factory operating expenses	34,782,846	33,136,064
Less Closing Stock	(162,399,627)	(91,703,063)
	<b>182,368,237</b>	<b>142,973,528</b>
<b>2 (c) Administrative Expenses</b>		
Salaries and wages	28,994,659	18,073,024
Advertising Marketing & Publicity	2,243,027	1,930,428
Bank charges	214,599	803,554
Insurance	2,422,642	522,000
Other administrative expenses	39,135,389	36,243,780
	<b>73,010,317</b>	<b>57,572,785</b>
<b>2 (d) Other Operating expenses</b>		
Factory running expenses	15,515,242	17,356,680
Light & Water	27,165,766	19,144,438
Repairs & Maintenance	165,010	413,000
Security	2,390,180	1,854,000
Depreciation	47,258,010	39,941,039
Exchange Loss/Gain	(2,849,715)	(1,931,475)
	<b>89,644,492</b>	<b>76,777,682</b>
	<b>162,654,809</b>	<b>134,350,467</b>
<b>2 (e) Finance Costs</b>		
Interest on EADB Loan	16,919,805	20,179,092
	<b>16,919,805</b>	<b>20,179,092</b>
<b>2 (f) Other Income</b>		
Interest Income	2,066,198	4,387,596
Miscellaneous Oncome	15,405	110,000
	<b>2,081,603</b>	<b>4,497,596</b>

Kipchabo Tea Factory Ltd  
Reports and Accounts for the Year Ended 30th Jun 2014

**NOTES TO THE ACCOUNTS -Continued**

**4. Inventories**

Finished Tea at Mombasa Warehouse  
Finished Tea at Kipchabo Factory  
Fuelwood at Kipchabo factory

	2013/2014 Kshs	2012/2013 Kshs
	134,792,000	82,277,000
	16,767,940	9,426,063
	10,839,687	-
	<u>162,399,627</u>	<u>91,703,063</u>

**5. Cash & Cash Equivalents**

KCB Current Account  
CFC Stanbic Bank  
KCB Fixed Deposit

	2013/2014 Kshs	2012/2013 Kshs
	316,920	25,721,691
	30,734,229	33,065,698
	25,000,000	50,000,000
	<u>56,051,149</u>	<u>108,787,389</u>

**6. Trade Receivables**

Bicorn Limited  
VAT Receivable

	2013/2014 Kshs	2012/2013 Kshs
	15,128,130	9,926,648
	13,865,987	7,065,599
	<u>28,994,118</u>	<u>16,992,247</u>

**7. Trade and other Payables**

Trade Payables

Green leaf creditors - Nyayo Tea Zones  
Green leaf creditors - Outgrowers  
Nyayo Tea Zones Devt. Corporation -  
Advances  
Accruals

	2013/2014 Kshs	2012/2013 Kshs
	9,801,847	-
	320,294,680	172,736,122
	18,211,769	-
	(30,728,683)	13,551,521
	7,967,429	14,367,829
	<u>325,547,041</u>	<u>200,655,472</u>

**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  
Share Premium  
Deficit brought forward  
Prifit / (Loss) for the year

	2013/2014 Kshs	2012/2013 Kshs
	100,000	100,000
	809,171,518	788,882,869
	(835,653)	(4,467,130)
	(57,843,079)	3,631,476
	<u>750,592,786</u>	<u>788,147,216</u>

Kipchabo Tea Factory Ltd  
 Reports and Accounts for the Year Ended 30th Jun 2014

Note 3

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	Kshs	Land	Work-in-Progress Kshs	Factory Buildings Kshs	Factory Machinery Kshs	Furniture & Fixtures Kshs	Office Equipment Kshs	Computers & Assessories Kshs	Motor Vehicles Kshs	Total Kshs
Cost										
As at 1st Jul 2013		8,044,682	75,685,043	424,475,149	333,679,731	3,749,997	1,204,795	11,064,841	24,782,150	882,686,388
Additions by Nyayo Tea Zones Dev. Corp			57,660,296	20,288,649	6,072,629					20,288,649
Additions			(110,991,454)	7,778,580	110,991,454					84,344,305
Transfer									12,832,800	
<b>30th Jun 2014</b>		<b>8,044,682</b>	<b>22,353,885</b>	<b>452,542,378</b>	<b>450,743,814</b>	<b>3,749,997</b>	<b>1,204,795</b>	<b>11,064,841</b>	<b>37,614,950</b>	<b>987,319,342</b>
Acum Deprn 1st Jul 2013										
Charge for the year				24,398,381	62,897,162	1,406,249	722,877	11,064,841	10,876,890	111,366,399
On Disposal				9,050,848	29,974,464	468,750	240,959		7,522,990	47,258,010
<b>30th Jun 2014</b>				<b>33,449,228</b>	<b>92,871,626</b>	<b>1,874,998</b>	<b>963,836</b>	<b>11,064,841</b>	<b>18,399,880</b>	<b>158,624,409</b>
<b>Net Book Value</b>										
<b>30th Jun 2014</b>		<b>8,044,682</b>	<b>22,353,885</b>	<b>419,093,150</b>	<b>357,872,189</b>	<b>1,874,998</b>	<b>240,959</b>		<b>19,215,070</b>	<b>828,694,934</b>
<b>30th June 2013</b>		<b>8,044,682</b>	<b>75,685,043</b>	<b>400,076,769</b>	<b>270,782,569</b>	<b>2,343,748</b>	<b>481,918</b>		<b>13,905,260</b>	<b>771,319,989</b>