



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 23 JUL 2019	DAY: TUESDAY
TABLED BY: MAJORITY WHIP	
CLERK-AT-THE-TABLE: 	

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KIPCHABO TEA FACTORY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2018**

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KIPCHABO TEA FACTORY LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2018

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

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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 2018. The Factory is a wholly owned subsidiary of Nyayo Tea Zones Development Corporation.

The Company reported improved growth in the year with pretax profits increasing from Ksh. 8 million to Ksh. 58 million. This growth is attributed to increased volumes of green leaf as a result of favorable weather conditions in the second half of the financial year. This led to an increase in volumes of tea sold in both the domestic market and at the auction.

The investments made in the previous years in form of machinery and equipment helped the Company to optimize capacity utilization and increase efficiency. The Company is further investing in latest tea weathering technology and installation of a third line to further increase its capacity to process green leaf. The new machinery will be commissioned in the second half of the next financial year.

In the past financial year green leaf intake from our farms and out growers increased by 39% to 21 million kgs. This is projected to grow in the coming years due to our continued partnership with the farmers. 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 30 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.


Raymond Kemei
For CHAIRMAN

Date..... 24/01/2019

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 2018. 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 24% to 4.49 million Kgs compared to 3.62 million Kgs in the previous year. Revenues increased by 33% to Ksh. 1.15 billion which was mainly attributed to higher volumes of processed tea. Direct expenses increased by 43% to Ksh. 936 million compared to Ksh. 713 million in the previous year primarily due to increased volumes of green leaf tea processed. Indirect expenses increased by 19% to Ksh.

167.5 Million compared to Ksh.140 Million in the previous year. Overall the company recorded a lower net profit of Ksh. 39.97 million compared to a net profit of Ksh. 8.10 million recorded in the previous year.

Operations

Total green leaf received by the factory was 21.1 million Kgs which is an increase of 39% compared to 15.2 million Kgs in the previous year. Out of the total green leaf received, out growers contribution was 11 million Kgs which is 52% while the rest was collected from Nyayo Tea Zones factory catchment namely Nandi, Kakamega and Kaptarakwa. Out-growers volume 11 million Kgs is an increase of 72% compared to 6.4 million Kgs in the previous year.

Processed tea volumes increased by 29% to 4.76 million Kgs compared to 3.67 million Kgs in the previous year giving an out-turn of 23% (2016/2017 - 24%).

Future outlook

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

Appreciation

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


Peter K. Korir

Managing Director

Date.....24/01/2019

CORPORATE INFORMATION

Directors:

Mr. Mathew Iteere – Director – Re-appointed to the board in 2016
Mr. Peter K. Korir - Director - appointed to the board in 2012

Registered Office and Principal place of Business:

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



Auditors:

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




Bankers:


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

BOARD OF DIRECTORS

1	 Mathew Iteere (MGH, CBS, OGW, DCO) – Director	<p>Mr. Iteere is 58 years old and joined the board in February 2013. Prior to joining the board, he was the Commissioner of Police of Republic of Kenya from 2009 to 2012. Mr Iteere holds a Diploma in Education.</p>
2	 Peter K. Korir – Managing Director	<p>Mr. Peter Korir is 49 years and joined the board in November 2012. He holds a Bachelor of Science degree in Mathematics from Egerton University and MBA (Strategic Management) from University of Nairobi. He is also a graduate of IESE Business school in Advanced Management. He has over 20 years’ experience in management having previously worked with East African Portland Cement and Unilever Kenya in various management positions.</p>

MANAGEMENT TEAM

1	Peter K. Korir – Managing Director	
2	 Samuel Njire – Head of Finance	<p>Mr Samuel Njire joined the corporation in 2009 and is the Head of Finance. He holds a Bachelor of Commerce (Accounting) and MBA (Finance) degrees 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 26 years’ experience in finance in both public and private institutions</p>
3	 Charles Mucheke – Head of Operations	<p>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 25 years’ experience in the tea industry.</p>
4	 William Togom – Head of Human Resource and Administration	<p>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 21 years’ experience in human resource and administration.</p>

5	 David Chepkwony – Head of Commercial	<p>Mr Chepkwony is 46 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 19 years' experience in sales and marketing.</p>
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REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30 June 2018, which disclose the state of affairs of the Corporation.

Incorporation

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

Principal Activity

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

Results

	2017/2018 (Ksh)	2016/2017 (Ksh)
Profit /(Loss) before tax	39,969,105	8,105,703
Net Profit/ (Loss) for the year	<u>39,969,105</u>	<u>8,105,703</u>

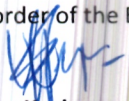
Directors

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... 24/01/2019

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 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.

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.



Raymond Kemei

For Chairman

Date... 24/01/2019



Peter Korir

Managing Director

Date... 24/01/2019

REPUBLIC OF KENYA

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NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KIPCHABO TEA FACTORY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kipchabo Tea Factory Limited set out on pages 1 to 9, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kipchabo Tea Factory Limited as at 30 June 2018, 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 Kenyan Companies Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kipchabo Tea Factory Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 are no key audit matters to communicate in my report.

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.

Report of the Auditor-General on the Financial Statements of Kipchabo Tea Factory Limited for the year ended 30 June 2018

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 governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and 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 Kenyan Companies Act, 2015 I report based on the audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with books of account; and
- (iv) In my opinion the information given in the report of the directors on page vi, is consistent with the financial statements.

Responsibilities of the Directors and Those Charged with Governance

The directors are 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 the directors 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 governance.

In preparing the financial statements, the directors are responsible for assessing the ability of Kipchabo Tea Factory Limited to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are 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 directors are 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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 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 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:

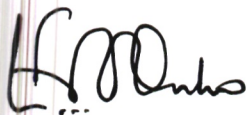
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 directors.
- Conclude on the appropriateness of the directors 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 ability of Kipchabo Tea Factory Limited 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 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 Kipchabo Tea Factory Limited to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the directors 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 the directors 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.



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

Nairobi

28 March 2019

Kipchabo Tea Factory Ltd
Statement of Profit & Loss & Comprehensive Income
For the Period Ended 30th June 2018

Page 1

	Notes	2017/2018 Kshs	2016/2017 Kshs
Turnover	2 (a)	1,145,255,633	859,527,511
Cost of Production	2 (b)	<u>(936,088,129)</u>	<u>(712,836,782)</u>
Gross Profit		209,167,504	146,690,729
Administrative Expenses	2 (c)	(34,247,653)	(33,893,343)
Other Operating Expenses	2 (d)	(76,724,048)	(59,768,840)
Employment Expenses	2 (e)	(56,528,141)	(46,624,269)
		(167,499,842)	(140,286,452)
Operating Profit Before finance Costs		41,667,662	6,404,277
Other income/(Exchange Loss)	2(g)	<u>(1,698,557)</u>	<u>1,701,426</u>
Net profit/(loss) for the year		39,969,105	8,105,703

KIPCHABO TEA FACTORY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30th June 2018

	Notes	2017/2018 Ksh.	2016/2017 Ksh.
Property, Plant & Equipment	3	749,280,094	754,548,601
CURRENT ASSETS			
Inventories	4	113,503,929	89,107,265
Trade Receivables	6	562,981,607	503,945,955
Cash & Bank Balances	5	28,185,540	6,497,000
TOTAL CURRENT ASSETS		704,671,076	599,550,219
CURRENT LIABILITIES			
Trade & Other Payables	7	580,420,131	520,536,885
TOTAL CURRENT LIABILITIES		580,420,131	520,536,885
NET CURRENT ASSETS		124,250,946	79,013,334
TOTAL NET ASSETS		873,531,040	833,561,935
FINANCED BY			
Ordinary Shares	8	100,000	100,000
Share Premium	8	809,171,518	809,171,518
Accumulated Profit	8	64,259,523	24,290,419
TOTAL CAPITAL		873,531,040	833,561,935

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

24/01/2019


Raymond Kemei
For Chairman


Peter Korir
Managing Director

STATEMENT OF CHANGES IN EQUITY

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

Note: Reserves are maintained by the Company for future expansion

2016/2017

	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		37,995,794	37,995,794
As at 30th June 2016	<u>809,271,518</u>	<u>(20,682,939)</u>	<u>788,588,579</u>
	-		-
Net Profit/(Loss) for the year		8,105,703	36,867,654
As at 30th June 2017	<u>809,271,518</u>	<u>24,290,419</u>	<u>833,561,937</u>

STATEMENT OF CASHFLOWS

	Note	2017/2018 Kshs	2016/2017 Kshs
Cashflow from Operating Activities			
Operating Profit (Loss)		39,969,105	8,105,703
Exchange gain		(1,698,557)	(1,700,584)
Depreciation of Fixed Assets	2 (d)	55,457,588	56,412,263
Profit Before Working Capital Changes		93,728,135	62,817,383
(Decrease) / Increase in Debtors & Prepayments	6	(59,035,652)	(429,493,149)
Increase / (Decrease) in Creditors & Accruals	7	59,883,245	378,118,766
Increase in Stock	4	(24,396,665)	33,184,672
Net Changes in working Capital		(23,549,071)	(18,189,712)
Net Cash Generated from Operating Activities		70,179,064	44,627,671
Cashflows used in Investing Activities			
Purchase of Fixed Assets	3	(50,189,080)	(48,895,605)
Net Cash (Used) in Investing Activities		(50,189,080)	(48,895,605)
Net Increase in Cash and Cash Equivalents		19,989,983	(4,267,934)
Movement in Cash and Cash Equivalents			
At 1st July 2016		6,497,000	9,064,351
Effect of exchange gain on cash & cash equivalent		1,698,557	1,700,584
Increase/(Decrease) in the year		19,989,983	(4,267,934)
At 30th Jun 2017	5	28,185,540	6,497,000

	Budget 2017/2018	Actual 2017/2018	Variance	Variance
Receipts	Kshs	Kshs	Kshs	%
Sale of Finished Tea	1,135,090,271	1,145,255,633	10,165,362	1%
Payments				
Green Leaf Intake	603,738,860	736,173,469	(132,434,608)	-22%
Other factory operating expenses	24,954,929	24,511,133	443,796	2%
Factory Materials & Consumables	5,642,829	3,603,858	2,038,971	36%
Motor Vehicle & Generator Fuel	18,467,947	5,818,115	12,649,832	68%
Electricity and Water	63,118,865	59,525,354	3,593,510	6%
Factory running expenses	17,496,208	15,829,523	1,666,686	10%
Fuelwood	38,907,497	32,254,120	6,653,377	17%
Manufacturing Labour	34,533,734	18,246,131	16,287,603	47%
Transport of finished tea	24,591,746	15,068,651	9,523,094	39%
Warehousing	12,210,527	8,461,528	3,748,999	31%
Brokerage and Catalogue fee	11,259,785	7,808,240	3,451,545	31%
Advertising Marketing & Publicity	23,500,000	3,453,715	20,046,285	85%
Bank charges	1,000,000	878,005	121,995	12%
Insurance	5,525,007	3,790,948	1,734,060	31%
Other administrative expenses	37,000,000	26,124,984	10,875,016	29%
Repairs & Maintenance	3,500,000	1,212,610	2,287,390	65%
Security	2,099,484	2,036,600	62,883	3%
Depreciation	80,550,642	55,457,588	25,093,054	31%
Salaries and wages	97,238,408	56,528,141	40,710,267	42%
Exchange Loss	-	-	-	-
Interest on Loan	13,000,000	-	13,000,000	100%
Other incomes				
Interest Income	1,000,000	-	(1,000,000)	-100%
Exchange Gain	-	(1,698,557)	(1,698,557)	

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).

NOTES TO THE ACCOUNTS

	2017/2018	2016/2017
	Kshs	Kshs
2 (a) Turnover		
Sale of Finished Tea	1,145,255,633	859,527,511
	1,145,255,633	859,527,511
2 (b) Cost of Production		
Opening Stock	89,107,265	122,291,937
Green Leaf Intake	736,173,469	499,325,723
Other factory operating expenses	22,995,073	14,998,485
Factory Materials & Consumables	3,603,858	9,232,759
Motor Vehicle & Generator Fuel	5,818,115	3,455,029
Electricity and Water	59,525,354	35,366,742
Factory running expenses	50,530,254	43,469,634
Fuelwood	32,254,120	23,030,560
Manufacturing Labour	18,246,131	24,090,518
Transport of finished tea	15,068,651	11,578,991
Warehousing	8,461,528	9,210,651
Brokerage and Catalogue fee	7,808,240	5,893,018
Less Closing Stock	(113,503,929)	(89,107,265)
	936,088,129	712,836,782
2 (c) Administrative Expenses		
Advertising Marketing & Publicity	3,453,715	2,467,324
Bank charges	878,005	594,727
Insurance	3,790,948	3,984,489
Other administrative expenses	26,124,984	26,846,804
	34,247,653	33,893,343
2 (d) Other Operating expenses		
Provision for doubtful debts	18,017,250	-
Repairs & Maintenance	1,212,610	1,204,388
Security	2,036,600	2,152,190
Depreciation	55,457,588	56,412,263
	76,724,048	59,768,840
	110,971,701	93,662,184
2 (e) Employment Expenses		
Salaries and wages	56,528,141	46,624,269
	56,528,141	46,624,269
2 (g) Other income		
Interest Income	-	843
Exchange Gain/ (Loss)	(1,698,557)	1,700,584
	(1,698,557)	1,701,426

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

Note 3

	Land Kshs	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 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	134,141	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

2015/2016

	Land Kshs	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 2016	8,044,682	-	452,542,378	477,972,274	3,749,997	1,204,795	12,222,641	68,365,750	1,024,102,516
Transfer from Nyayo Tea Zone									-
Additions	-	13,035,860	3,667,845	14,366,842	(0)	155,551	83,507	17,586,000	48,895,605
Disposal									-
30 Jun 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
Acum Deprn 1st Jul 2016	-	-	51,550,923	156,255,050	2,812,498	1,204,795	11,815,441	38,398,550	262,037,257
Charge for the year	-	-	9,124,204	32,740,551	468,750	31,110	413,727.59	13,633,920	56,412,263
On Disposal									-
30 Jun 2017	-	-	60,675,128	188,995,601	3,281,247	1,235,905	12,229,169	52,032,470	318,449,520
Net Book Value									
30 Jun 2017	8,044,682	13,035,860	395,535,096	303,343,515	468,750	124,441	76,979	33,919,280	754,548,602
30th June 2016	8,044,682	-	400,991,455	321,717,224	937,499	-	407,200	29,967,200	762,065,261

NOTES TO THE ACCOUNTS -Continued

	2017/2018 Kshs	2016/2017 Kshs
4. Inventories		
Finished Tea at Mombasa Warehouse	75,789,636	39,621,028
Finished Tea at Kipchabo Factory	30,058,644	39,903,554
Fuelwood at Kipchabo factory	7,546,400	8,416,080
Other Inventories	109,250	1,166,603
	113,503,929	89,107,265
5. Cash & Cash Equivalents		
KCB Current Account	24,903,182	3,447,590
CFC Stanbic Bank	3,260,267	1,720,233
Mpesa Cash Account	-	1,324,364
Cash in hand	22,091	4,813
	28,185,540	6,497,000
6. Trade Receivables		
Trade Debtors	32,235,537	60,395,313
Other Debtors	38,979,429	25,897,681
Nyayo Tea Zones Devt. Corporation - Advances	491,766,641	417,652,960
	562,981,607	503,945,955
7. Trade and other Payables		
Trade Payables	43,445,876	24,098,789
Green leaf Creditors - Nyayo Tea Zones	479,111,804	458,921,404
Green Leaf Creditors - Outgrowers	53,443,292	32,397,874
Accruals	4,419,159	5,118,818
	580,420,131	520,536,885
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
Deficit brought forward	24,290,419	16,184,716
Profit / (Loss) for the year	39,969,105	8,105,703
	873,531,041	833,561,937