

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

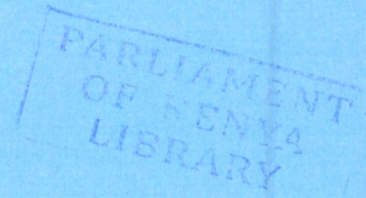
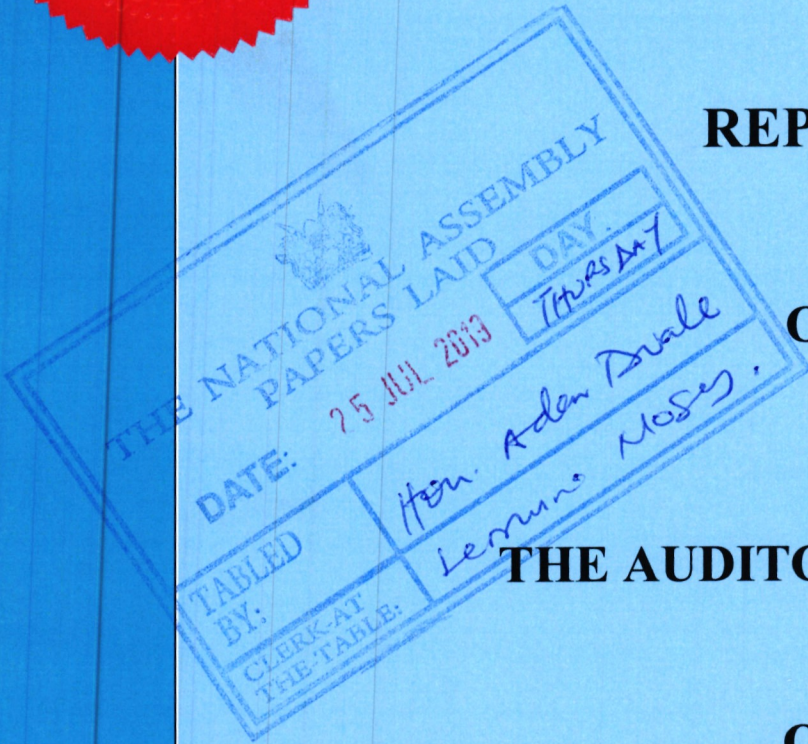
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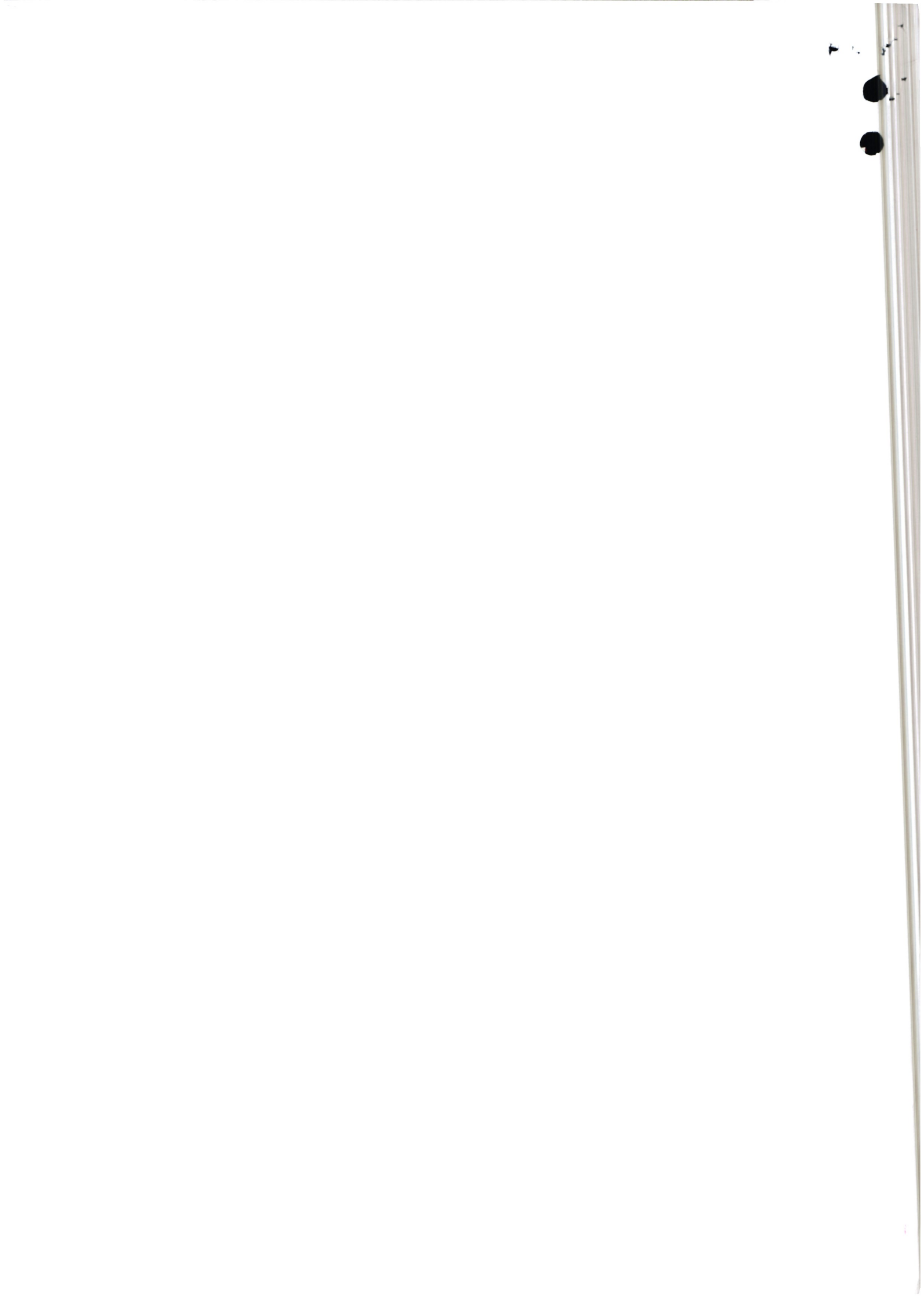
THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
NYAYO TEA ZONES DEVELOPMENT
CORPORATION

FOR THE YEAR
ENDED 30 JUNE 2018





NYAYO TEA ZONES DEVELOPMENT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2018

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

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

23 APR 2019

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CHAIRMAN'S STATEMENT

I am pleased to present to you the Annual Report and financial statements of Nyayo Tea Zones Development Corporation for the year ended 30 June 2018. The Corporation was established through a Legal Gazette Notice No. 265 of 1986 as a State Corporation with the aim of promoting forest conservation by providing buffer zones of tea and assorted tree species to check against human encroachment into the forestland.

The Corporation is mandated to protect the gazetted forests from human encroachment by establishing continuous belts of tea bushes and assorted tree species which acts as a buffer between forests and communities living adjacent to the forests. The tea zones not only help to protect the forests but also in the rehabilitation of ecologically fragile areas. Since its establishment The Corporation has established 3,566 hectares of tea, out of which 2,575 hectares is mature tea while 991 hectares is young tea under 5 years. It has also established 5,235 hectares of assorted tree species which have acted as a buffer and have successfully stopped human encroachment into the forestland. The area under fuelwood plantation is 4,000 hectares and 1,235 hectares is under indigenous tree species.

The Corporation has recorded substantial growth in tea production and processing as well as creation of employment. Green leaf production has increased from 3 million kilograms in the 1990s to the current 30 million kilograms annually. It is projected that in the next few years, green leaf production will surpass the 35 million kilogram mark.

Currently, the Corporation has a workforce of over 500 employees including the staff in its subsidiary Kipchabo Tea Factory. The Corporation engages between 8,000 and 12,000 workers on casual basis in its tea plantations depending on the season and pays an average of Ksh 120 million annually as wages to the local communities in the 18 zones where it operates. As part of making the Corporation sustainable through value addition, the Corporation has constructed its first tea factory at Kipchabo in Nandi County which started operations in October 2010. Construction of the second factory at Gatitu in Kirinyaga County commenced in 2016 and is expected to be completed in next financial year.

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.

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 Corporation'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.....

12/04/2019

MANAGING DIRECTOR'S STATEMENT

General

I am pleased to present to you the Annual Report and financial statements of Nyayo Tea Zones Development Corporation for the year ended 30 June 2018.

Financial Results

The Corporation's general performance improved during the second half of the year as a result of favourable weather conditions. The favourable weather caused a 23% increase in green leaf production. The increased volume of green leaf resulted in oversupply of leaf in the market which resulted in a drop in average prices. The revenue per kilogram received from green leaf declined marginally to an average of Ksh. 47.9 compared to Ksh. 48 in the previous year. Consolidated revenues increased by 14% to Ksh. 2,179 million compared to Ksh. 1,726 realised in the previous year, while revenues from sale of green leaf increased by 23% to Ksh. 1,439 million compared to Ksh. 1,174 in the previous year. On the other hand, direct costs increased by 26% to Ksh. 1,062 million while indirect costs increased by 8% to Ksh. 684 million compared to the previous year. Overall net profit increased to Ksh. 463 million compared to Ksh. 276 million in the previous year.

Operations

Green leaf production increased by 23% to 30 million kilograms compared to the previous year which was attributed to favorable weather conditions in our tea growing areas in the second half of the year.

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

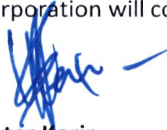
Processed tea volumes increased by 29% to 4.76 million Kgs compared to 3.67 million Kgs in the previous year giving an out-turn of 23% (2016/2017 - 24%).

Future outlook

The Corporation expects improvement in green leaf production if weather in tea growing regions remains favourable. We are also optimistic that tea prices in the global markets will continue to improve thus boosting the Corporation's revenues. The Corporation anticipates growth in tea sales in the local market as our brands continue to penetrate in market segments hitherto held by others.

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 management and staff I also wish to express my gratitude to the board and the Government for their commitment to the Corporation. With your support the corporation will continue to grow sustainably for the benefit of all stakeholders.



Peter Korir
MANAGING DIRECTOR

Date.....12/04/2019.....

CORPORATE INFORMATION

Directors:

- Mr. Mathew Iteere – Chairman – Re-appointed to the board in 2016
- Mr. Peter K. Korir - Managing Director - appointed to the board in 2012
- Mrs Naomi Wanja Kathurima – Appointed to the board in 2015, left in April 2018
- Dr Wilson Soi – Member - appointed in Apr 2015, resigned in 2017
- Mr. George Kibiru – Member - appointed in Oct 2015
- Ms Hellen Nyatuka – Member - appointed in Oct 2015
- Mr. Raymond Kemei – Member - appointed in Oct 2015
- Mr. Clement Muyesu - Member (Alternate to Principal Secretary Ministry of Agriculture Livestock & Fisheries) appointed to the board in 2014
- Mr. James Aloyo – Member (Alternate to Principal Secretary Treasury) - appointed in Jan 2017
- Mr. Peter Kiago – 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



BOARD OF DIRECTORS

| | | |
|---|--|--|
| 1 |  Mathew Iteere (MGH, CBS, OGW, DCO) – Chairman | 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. |
| 2 |  Peter K. Korir – Managing Director | 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. |
| 3 |  Naomi W. Kathurima – Member | Ms Kathurima is 53 years old and joined the board in April 2015. He holds a Masters degree in Education and is currently pursuing Phd degree in early childhood education. She is a lecturer at Kenyatta University school of Education. |

| | | |
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| 4 | Clement Muyesu – Member (Alternate to Principal Secretary Ministry of Agriculture Livestock & Fisheries) | Mr. Muyesu is 57 years and joined the board in 2014. He represents the Principal Secretary Ministry of Agriculture Livestock & Fisheries in the board during the year. He holds Bsc degree in agriculture. He is currently assistant Director in the Ministry of Agriculture Livestock & Fisheries, State Department of Agriculture |
| 5 | Paul Kiagu – Member (Alternate to Principal Secretary Treasury) | Mr. Kiagu represented the Principal Secretary, The Treasury in the board during the year. He served in the board until December 2017. |
| 6 |  Hellen K. Nyatuka - Member | Ms Nyatuka is 36 years and was appointed to the Board in April 2015. She holds Bsc in Computer Science and Diploma in Project Management. She is currently a program manager with Calvary Covenant Community Centre and has over 13 years working with NGOs |
| 7 |  Raymond K. Kemei – Member | Mr. Kemei is 46 years old and joined the board in October 2015. He holds MBA degree in strategic management and BA degree in economics. He also has a diploma in project management. He is currently a production manager with KTDA and has over 15-year experience in tea industry |
| 8 |  George N. Kibiru - Member | Mr. Kibiru is 46 years old and joined the board in October 2015. He holds Bcom degree and is a Certified Public Accountant, CPA(K) and a Certified Public Secretary CPS(K). He is currently a consultant in finance, auditing and tax with Njagi & Associates and has over 18 years' experience in finance and auditing |
| 9 | Dr. Wilson K. Soy | Dr. Soy is 61 years old and joined the board in October 2015. He holds a Phd in Business Administration, MBA and BBA degrees. He is Currently a consultant with Leadstar Africa Consult Ltd as well as a part-time lecturer. He has over 30 years' experience in tea industry. He left the board in |

MANAGEMENT TEAM

| | | |
|---|--|---|
| 1 |  Peter K. Korir – Managing Director | 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 21 years' experience in management having previously worked with East African Portland Cement and Unilever Kenya in various management positions. |
| 2 |  Samuel Njire – Head of Finance | Mr Samuel Njire joined the corporation in 2009 and is the Head of Finance. He holds a Bachelor of Commerce (Accounting) and MBA (Finance) degrees both from University of Nairobi. He is also a certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK) – Membership No. 6527. He is responsible for overall financial stewardship of the corporation. He has over 26 years' experience in finance in both public and private institutions |
| 3 |  Charles Mucheke – Head of Operations | Mr Charles Mucheke joined the Corporation in 2005 and is the Head of Operations. He holds a Bachelor of Science (Agriculture) and MBA (Operations Management) degrees both from University of Nairobi. He is responsible for all agronomy operations in the Corporation. Prior to joining the Corporation, he worked with KTDA and has over 25 years' experience in the tea industry. |

| | | |
|---|---|---|
| 4 |  <p>William Togom – Head of Human Resource and Administration</p> | <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 |  <p>David Chepkwony – Head of Commercial</p> | <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> |

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 Corporation 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 Corporation 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 corporation 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.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30th June 2018, 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 it's 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

| | 2017/2018 (Ksh) | 2016/2017 (Ksh) |
|---------------------------------|--------------------|--------------------|
| Profit / (Loss) before tax | 463,152,575 | 275,968,302 |
| Net Profit/ (Loss) for the year | <u>463,152,575</u> | <u>275,968,302</u> |

Directors

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

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.....12/04/2019.....

STATEMENT OF DIRECTORS' RESPONSIBILITIES

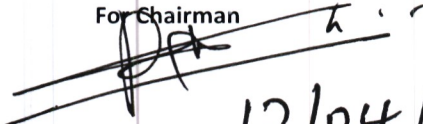
The State Corporations Act requires the directors to prepare financial statements for each year, which give a true and fair view of the state of affairs of the corporation and of its operating results for that year. It also requires the directors to ensure that the corporation keeps a set of proper accounting 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..... 12/04/2019



Peter Korir
Managing Director

Date..... 12/04/2019



REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NYAYO TEA ZONES DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Nyayo Tea Zones Development Corporation set out on pages 1 to 17, which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in the general fund, statement of cash flows and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the consolidated financial position of Nyayo Tea Zones Development Corporation as at 30 June, 2018, and of its consolidated financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Nyayo Tea Zones Development Corporation Order, 2002 and the State Corporations Act, Cap 446 of the Laws of Kenya.

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1. The consolidated statement of financial position and as disclosed under Note 8 to the financial statements reflects a balance of Kshs.1,606,249,281 in respect to property, plant and equipment as at 30 June 2018. Included in this figure is Kshs.348,635,990 relating to land and buildings which excludes the undetermined value of land under tea and growing zones due to lack of ownership documents. However, Section 3 (1) (b) and (c) of the Nyayo Tea Zones Development Corporation Order, 2002 states that, "After the creation of the tea and fuel wood growing zones, the land shall be vested and become the property of the Corporation for the purposes of the Order; and any tea and fuel wood growing areas created and developed in gazetted forests and trust lands forests by the Government prior to the making of this Order, shall be deemed to have been created by the Corporation for the purposes of this Order".

1.2. The land and buildings balance of Kshs.348,635,990 as at 30 June 2018, disclosed under Note 8 to the financial statements excludes an undetermined value of one parcel of

Report of the Auditor-General on the Financial Statements of Nyayo Tea Zones Development Corporation for the year ended 30 June 2018

land located in Elgeyo Marakwet County measuring 66 hectares. According to available evidence, the land which is fully developed and with tea bushes has been illegally excised by an individual. Although the management has explained that details concerning this parcel of land has been forwarded to the Ethics and Anti-Corruption Commission (EACC) for investigation, no evidence has been provided by the management showing action taken to recover the land.

Under the circumstances, it is not possible to ascertain whether property, plant and equipment balance of Kshs.1,606,249,281 as at 30 June 2018 is fairly stated.

2. Long Outstanding Imprests

The trade and other receivables net balance of Kshs.910,659,353 as at 30 June 2018 like in the previous year, excludes outstanding imprests of Kshs.1,176,259 from former employees that have been outstanding since 1990's. Although management has made a full provision for these debts whose recovery remains doubtful, no evidence has been provided for audit verification showing action taken to recover the imprests.

3. Bearer Plants

The statement of consolidated financial position as at 30 June 2018 and as disclosed under Note 7 to the financial statements reflects an amount of Kshs.1,633,221,779 relating to bearer plants. Examination of records however revealed that included in this figure is undetermined value of bearer plants on land measuring 17.34 hectares registered in the name of the Corporation as Grant No. L.R 82519 in Elgeyo Marakwet County. A third party, a Mr. Silvester Kaitany claims that the land was allocated to him by the Government in 1999.

Further, examination of records revealed that as a result of the dispute, the National Land Commission carried out a valuation of the piece of land and in their communication to the Corporation, Ref: NLC/V&T/MKKEMC/1 of 6 November 2017, the Commission assessed the value of the land including the tea bushes at Kshs.369,797,500 and advised the Corporation to pay the claimant should it wish to keep the land. It is not clear and the management has not explained, why the National Land Commission was involved in the dispute resulting in the valuation of the land and award of the amounts given that no supporting documentation had been provided showing how the land was allocated to the claimant from the Corporation in the first place.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the

Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

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, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing else 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, AND RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis Qualified Opinion section of my report, I confirm that, nothing else 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.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the ability of Nyayo Tea Zones Development Corporation to sustain services, disclosing, as applicable,

Report of the Auditor-General on the Financial Statements of Nyayo Tea Zones Development Corporation for the year ended 30 June 2018

matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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.

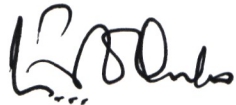
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the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

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability Nyayo Tea Zones Development Corporation to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to sustaining its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the ability Nyayo Tea Zones Development Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

22 May 2019

Consolidated Statement of Profit & Loss and Other Comprehensive Income
For the Year Ended 30th Jun 2018

| | Notes | 2017/2018 Kshs | 2016/2017 Kshs |
|--|-----------|------------------------|----------------------|
| Turnover | 2 (a) | 2,178,778,278 | 1,725,855,570 |
| Cost of Production | 2 (b) | <u>(1,062,222,169)</u> | <u>(845,494,749)</u> |
| Gross Profit | | 1,116,556,109 | 880,360,821 |
| Employment Expenses | | (357,678,011) | (346,154,539) |
| Administrative Expenses | 3 (a & b) | (90,640,227) | (70,445,337) |
| Board Expenses | 3 (c) | (11,367,701) | (12,696,555) |
| Other Operating Expenses | 4 | <u>(202,807,084)</u> | <u>(179,917,806)</u> |
| | | <u>(662,493,023)</u> | <u>(609,214,237)</u> |
| Operating Profit Before finance Costs | | 454,063,087 | 271,146,584 |
| Finance Costs | 5 | <u>(21,635,677)</u> | <u>(26,622,854)</u> |
| Profit before Exceptional Item | | 432,427,410 | 244,523,729 |
| Other income | 2(c) | <u>30,725,165</u> | <u>31,444,573</u> |
| Net profit/(loss) for theyear | | 463,152,575 | 275,968,302 |
| Proposed Dividends | | <u>23,157,629</u> | <u>13,798,415</u> |

| | Notes | 2017/2018 Kshs | 2016/2017 Kshs |
|---------------------------------------|-------|----------------------|----------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Biological Assets | 6 | 775,908,338 | 768,558,007 |
| Bearer Plants | 7 | 1,633,221,779 | 1,347,808,074 |
| Property, Plant & Equipments | 8 | 1,606,249,281 | 1,382,347,132 |
| Long Term Investments | 9 | 65,538,768 | 64,401,224 |
| | | 4,080,918,166 | 3,563,114,437 |
| Current Assets | | | |
| Inventories | 10 | 142,468,784 | 114,073,164 |
| Trade & Other Receivables | 11 | 910,659,353 | 913,903,173 |
| Cash & Cash Equivalents | 12 | 310,475,079 | 241,177,516 |
| | | 1,363,603,217 | 1,269,153,854 |
| Total Assets | | 5,444,521,383 | 4,832,268,291 |
| GENERAL FUND & LIABILITIES | | | |
| General Fund | | | |
| Accumulated Fund/Shareholding | 13 | 1,307,068,970 | 1,282,068,970 |
| Donor Grants | 13 | 741,760,713 | 741,760,713 |
| Reserves | 13 | 2,869,206,973 | 2,429,212,027 |
| Proposed Dividend | | 23,157,629 | 13,798,415 |
| | | 4,941,194,285 | 4,466,840,125 |
| Long Term Loans | | | |
| Commercial Bank Loans | 14 | 134,304,846 | 186,297,631 |
| | | 134,304,846 | 186,297,631 |
| Current Liabilities | | | |
| Long Term Loan due within the year | 14 | 116,754,797 | 48,620,596 |
| Trade Creditors | 15 | 179,858,783 | 86,708,446 |
| Accruals | 16 | 72,408,673 | 43,801,493 |
| | | 369,022,253 | 179,130,535 |
| General Fund and Liabilities | | 5,444,521,383 | 4,832,268,291 |

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

12/04/2019


 Raymond Kemei
 For Chairman


 Peter Korir
 Managing Director

Nyayo Tea Zones Development Corporation
Statement of Financial Position
As at 30th Jun 2018

Page 3

| | Notes | 2017/2018 Kshs | 2016/2017 Kshs |
|---------------------------------------|-------|----------------------|----------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Biological Assets | 6 | 775,908,338 | 768,558,007 |
| Bearer Plants | | 1,633,221,779 | 1,347,808,074 |
| Property, Plant & Equipments | 7 | 856,969,186 | 627,798,531 |
| Long Term Investments | 9 | 874,810,286 | 873,672,742 |
| | | 4,140,909,590 | 3,617,837,354 |
| Current Assets | | | |
| Inventories | 10 | 28,964,855 | 24,965,899 |
| Trade & Other Receivables | 11 | 826,789,551 | 868,878,623 |
| Cash & Cash Equivalents | 12 | 282,289,539 | 234,680,516 |
| | | 1,138,043,945 | 1,128,525,038 |
| | | 5,278,953,534 | 4,746,362,392 |
| Total Assets | | | |
| GENERAL FUND & LIABILITIES | | | |
| General Fund | | | |
| Accumulated Fund/Shareholding | 13 | 1,307,068,970 | 1,282,068,970 |
| Donor Grants | 13 | 741,760,713 | 741,760,713 |
| Reserves | 13 | 2,828,105,079 | 2,418,720,024 |
| | | 4,876,934,762 | 4,442,549,707 |
| Long Term Loans | | | |
| Commercial Bank Loans | 14 | 134,304,846 | 186,297,631 |
| | | 134,304,846 | 186,297,631 |
| Current Liabilities | | | |
| Long Term Loan due within the year | 14 | 116,754,797 | 48,620,596 |
| Trade Creditors | 15 | 82,969,615 | 30,211,783 |
| Accruals | 16 | 67,989,514 | 38,682,675 |
| | | 267,713,926 | 117,515,054 |
| | | 5,278,953,534 | 4,746,362,392 |
| General Fund and Liabilities | | | |

Nyayo Tea Zones Development Corporation
 Statement of Profit & Loss and other Comprehensive Income
 For the Year Ended 30th Jun 2018

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| | Notes | 2017/2018 NTZDC Kshs | 2016/2017 NTZDC Kshs |
|--|---------|----------------------------|----------------------------|
| Turnover | 2 (a) | 1,438,913,045 | 1,174,354,043 |
| Cost of Production | 2 (b) | <u>(531,524,440)</u> | <u>(440,683,952)</u> |
| Gross Profit | | 907,388,606 | 733,670,092 |
| Employment Expenses | | (301,149,870) | (299,530,271) |
| Administrative Expenses | (a & b) | (56,392,575) | (36,551,994) |
| Board Expenses | 3 (c) | (11,367,701) | (12,696,555) |
| Other Operating Expenses | 4 | <u>(126,083,035)</u> | <u>(120,148,965)</u> |
| | | (494,993,181) | (468,927,785) |
| Operating Profit Before finance Costs | | 412,395,425 | 264,742,307 |
| Finance Costs | 5 | <u>(21,635,677)</u> | <u>(26,622,854)</u> |
| Profit before Exceptional Item | | 390,759,748 | 238,119,453 |
| Other income | 2(c) | <u>32,423,722</u> | <u>29,743,146</u> |
| Net profit/(loss) for theyear | | 423,183,470 | 267,862,599 |

| | Notes | 2017/2018 Kshs | 2016/2017 Kshs |
|--|-------|----------------------|----------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, Plant & Equipments | 7 | 749,280,094 | 754,548,601 |
| | | 749,280,094 | 754,548,601 |
| Current Assets | | | |
| Inventories | 10 | 113,503,929 | 89,107,265 |
| Trade & Other Receivables | 11 | 562,981,607 | 503,945,955 |
| Cash & Cash Equivalents | 12 | 28,185,540 | 6,497,000 |
| | | 704,671,076 | 599,550,220 |
| Total Assets | | 1,453,951,170 | 1,354,098,821 |
| GENERAL FUND & LIABILITIES | | | |
| General Fund | | | |
| Accumulated Fund/Shareholding Reserves | 13 | 809,271,518 | 809,271,518 |
| | 13 | 64,259,523 | 24,290,419 |
| | | 873,531,041 | 833,561,937 |
| Current Liabilities | | | |
| Trade Creditors | 15 | 576,000,972 | 520,536,885 |
| Accruals | 16 | 4,419,159 | |
| | | 580,420,131 | 520,536,885 |
| General Fund and Liabilities | | 1,453,951,170 | 1,354,098,822 |

Statement of Profit & Loss and other Comprehensive Income

For the Year Ended 30th Jun 2018

| | Notes | 2017/2018 Kshs | 2016/2017 Kshs |
|--|---------|----------------------|----------------------|
| Turnover | 2 (a) | 1,145,255,633 | 859,527,511 |
| Cost of Production | 2 (b) | (936,088,129) | (712,836,782) |
| Gross Profit | | 209,167,504 | 146,690,729 |
| Employment Expenses | | (56,528,141) | (46,624,269) |
| Administrative Expenses | (a & b) | (34,247,653) | (33,893,343) |
| Other Operating Expenses | 4 | (76,724,048) | (59,768,840) |
| | | (167,499,842) | (140,286,452) |
| Operating Profit Before finance Costs | | 41,667,662 | 6,404,277 |
| Finance Costs | 5 | - | - |
| Profit before Exceptional Item | | 41,667,662 | 6,404,277 |
| Other income/(Exchange Loss) | 2(c) | (1,698,557) | 1,701,426 |
| Net profit/(loss) for theyear | | 39,969,105 | 8,105,703 |

**CONSOLIDATED STATEMENT OF CHANGES IN THE GENERAL FUND
2017/2018**

| | Accumulated Fund Kshs | Donor Grants Kshs | Revenue Reserves Kshs | Total Kshs |
|--------------------------------|--------------------------------------|----------------------------------|--------------------------------------|-----------------------|
| As at 1 July 2016 | 1,207,068,970 | 741,760,713 | 2,167,042,140 | 4,115,871,823 |
| GOK Capital Contribution | 75,000,000 | | | 75,000,000 |
| Net Profit for the year | | | 275,968,302 | 275,968,302 |
| Dividends Payable 2016/2017 ** | | | (13,798,415) | (13,798,415) |
| As at 30 June 2017 | 1,282,068,970 | 741,760,713 | 2,429,212,027 | 4,453,041,710 |
| GOK Capital Contribution | 25,000,000 | | | 25,000,000 |
| Net Profit for the year | | | 463,152,575 | 463,152,575 |
| Proposed Dividend 2017/2018** | | | (23,157,629) | (23,157,629) |
| As at 30 June 2018 | 1,307,068,970 | 741,760,713 | 2,869,206,973 | 4,918,036,656 |

2016/2017

| | Accumulated Fund Kshs | Donor Grants Kshs | Revenue Reserves Kshs | Total Kshs |
|--------------------------------|--------------------------------------|----------------------------------|--------------------------------------|-----------------------|
| As at 1 July 2015 | 1,147,068,970 | 741,760,713 | 1,820,144,409 | 3,708,974,092 |
| GOK Capital Contribution | 60,000,000 | | | 60,000,000 |
| Net Profit for the year | | | 365,155,506 | 365,155,506 |
| Dividends Payable 2015/2016 ** | | | (18,257,775) | (18,257,775) |
| As at 30 June 2016 | 1,207,068,970 | 741,760,713 | 2,167,042,140 | 4,115,871,823 |
| GOK Capital Contribution | 75,000,000 | | | 75,000,000 |
| Net Profit for the year | | | 275,968,302 | 275,968,302 |
| ** Proposed Dividend 2016/2017 | | | (13,798,415) | (13,798,415) |
| As at 30 June 2017 | 1,282,068,970 | 741,760,713 | 2,429,212,027 | 4,453,041,710 |

*Dividends to National Treasury or charged to Equity in the period in which they are declared. The Corporation has a dividend policy of 5% on Net Profits.

** Proposed Dividends are shown as a separate component of equity until declared

CASHFLOW STATEMENT

| | Note | 2017/2018 Kshs | 2016/2017 Kshs |
|---|-----------|----------------------|----------------------|
| Cashflow from Operating Activities | | | |
| Operating Profit (Loss) | | 463,152,575 | 275,968,302 |
| Dividend income | 2 (c) | (1,444,875) | (1,334,110) |
| Exchange loss | 2 (c) | 4,532,453 | 11,249,597 |
| Depreciation of Fixed Assets | 7 | 97,859,728 | 97,815,109 |
| Amortization | 6 | 52,290,076 | 52,290,076 |
| Interest Income | 2 (c) | (26,804,428) | (23,029,970) |
| Interest paid | 5 | 17,103,224 | 15,373,257 |
| Gain on disposal of fixed assets | | (4,156,419) | (5,326,111) |
| Profit Before Working Capital Changes | | 602,532,333 | 423,006,150 |
| (Decrease) / Increase in Debtors & Prepaymen | 11 | 3,243,820 | (68,425,421) |
| Increase / (Decrease) in Creditors & Accruals | 15 | 189,891,718 | 51,898,123 |
| Increase in Stock | 10 | (3,998,955) | (3,116,132) |
| Decrease in Stock - Kipchabo | 10 | (24,396,665) | 33,184,672 |
| Net Changes in working Capital | | 164,739,918 | 13,541,242 |
| Net Cash Generated from Operating Activities | | 767,272,251 | 436,547,392 |
| Cashflows used in Investing Activities | | | |
| Dividends received | 2 (c) | 1,444,875 | 1,334,110 |
| Long-Term Investment in K.T.D.A Factories | 9 | (1,137,544) | (766,555) |
| Bearer plants costs | 6 | (337,703,781) | (259,379,836) |
| Purchase of Fixed Assets | 7 (b) | (321,795,207) | (233,352,461) |
| Direct acquisition of biological assets | 6 | (7,350,331) | (17,438,057) |
| Interest Income | 2 (c) | 26,804,428 | 23,029,970 |
| Proceeds from disposal of fixed assets | | 4,189,750 | 8,211,470 |
| Net Cash (Used) in Investing Activities | | (635,547,810) | (478,361,359) |
| Cashflows (Used) in Financing Activities | | | |
| GOK Contribution | | 25,000,000 | 75,000,000 |
| Commercial Bank loans Disbursements | 5 | 89,007,063 | 132,733,870 |
| Commercial Bank loans Repayments | 5 | (154,798,263) | (39,896,651) |
| Interest Paid | 5 | (17,103,224) | (15,373,257) |
| Net Cash from/(Used) in Financing Activities | | (57,894,424) | 152,463,962 |
| Net Increase in Cash and Cash Equivalents | | 73,830,016 | 110,649,995 |
| Movement in Cash and Cash Equivalents | | | |
| At 1 July 2017 | 12 | 241,177,516 | 141,777,118 |
| Effect of exchange gain on cash & cash equivalent | | (4,532,453) | (11,249,597) |
| Increase/(Decrease) in the year | | 73,830,016 | 110,649,995 |
| At 30 Jun 2018 | 12 | 310,475,079 | 241,177,516 |

| | Budget 2017/2018 | Actuals 2017/2018 | Variance | Variance |
|--------------------------------|------------------|-------------------|--------------|----------|
| | Kshs | Kshs | Kshs | % |
| Receipts | | | | |
| Factory Sales | 990,787,215 | 1,145,255,633 | 154,468,418 | 16% |
| Green Leaf Sales | 1,213,734,423 | 1,428,177,000 | 214,442,577 | 18% |
| Transport refund | 14,477,059 | 10,152,095 | (4,324,964) | -30% |
| Fuelwood sales | - | 583,950 | 583,950 | |
| Payments | | | | |
| Plantation Labour | 376,679,874 | 335,384,906 | 41,294,968 | 11% |
| Farm Inputs | 158,518,083 | 144,663,404 | 13,854,680 | 9% |
| Transport | 54,985,542 | 51,292,765 | 3,692,777 | 7% |
| KTDA Charges | 12,137,344 | 183,366 | 11,953,979 | 98% |
| Factory Cost of Sales | 717,830,925 | 712,836,782 | 4,994,143 | 1% |
| Employment expenses | 345,993,412 | 347,774,138 | (1,780,726) | -1% |
| Advertising Marketing & Public | 38,169,994 | 1,420,206 | 36,749,788 | 96% |
| Directors' Expenses | 19,023,684 | 11,367,701 | 7,655,983 | 40% |
| Audit fees | 2,200,000 | 1,363,550 | 836,450 | 38% |
| Printing & Stationery | 7,672,400 | 3,450,981 | 4,221,419 | 55% |
| Telephone & Postage | 9,401,200 | 6,054,529 | 3,346,671 | 36% |
| Publications & Periodicals | 1,554,000 | 871,594 | 682,406 | 44% |
| General Office Expenses | 6,400,400 | 6,466,517 | (66,117) | -1% |
| Transport Operating | 12,176,792 | 5,699,196 | 6,477,596 | 53% |
| Legal & Professional | 23,000,000 | 26,520,866 | (3,520,866) | -15% |
| Cleaning | 4,380,800 | 1,093,489 | 3,287,311 | 75% |
| Bank charges | 2,514,000 | 2,337,100 | 176,900 | 7% |
| Kipchabo Admin Exps | 156,435,756 | 33,893,343 | 122,542,413 | 78% |
| Rent & Rates | 2,680,000 | 2,479,850 | 200,150 | 7% |
| Light & Water | 990,628 | 837,304 | 153,324 | 15% |
| Repairs & Maintenance | 14,108,000 | 11,266,306 | 2,841,694 | 20% |
| Licences | 1,500,000 | 406,331 | 1,093,670 | 73% |
| Insurance | 12,716,636 | 13,203,904 | (487,268) | -4% |
| Security | 3,432,000 | 3,197,125 | 234,875 | 7% |
| Depreciation | 49,239,530 | 42,402,140 | 6,837,391 | 14% |
| Amortization | - | 52,290,076 | (52,290,076) | |
| Kipchabo Operating Exps | 112,613,658 | 59,768,840 | 52,844,818 | 47% |
| Finance Costs | 30,500,000 | 21,635,677 | 8,864,323 | 29% |
| Other incomes | | | | |
| Interest Income | 11,919,517 | 26,804,428 | 14,884,911 | 125% |
| Dividends from KTDA factorie | 1,050,129 | 1,444,875 | 394,746 | 38% |
| Miscellaneous Income | - | 2,475,862 | 2,475,862 | |

Nyayo Tea Zones Development Corporation
Reports and Accounts for the Year Ended 30th Jun 2018

NOTES TO THE ACCOUNTS

1. Summary of Significant Accounting Policies

(a) Statement of compliance and basis of preparation

The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS), Companies Act, Public Finance Management Act and the State Corporations Act. The financial statements have been prepared on a historical cost basis. 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 Nyayo Tea Zones Development Corporation. 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 intercompany 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: -

| | | | |
|-------------------|-------|----------------------|-------|
| Factory Buildings | 2% | Tractors & Trailers | 33.3% |
| Factory Machinery | 6.65% | Furniture & Fixtures | 12.5% |
| Office Equipment | 20% | Computers | 33.3% |
| Motor Vehicles | 20% | Farm Tools | 33.3% |

(e) Bearer Plants

Bearer plants are measured as property plant and equipment and amortized at 5% annually on straight line. Before maturity bearer plants are measured at accumulated cost and reported as work-in-progress (WIP). After maturity WIP is transferred to mature bearer plants at the accumulated cost and depreciated over the expected useful life of 20 years.

(f) Inventories

Finished Tea and Other inventories are stated at cost which is determined on the weighted average basis. 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.

(g) 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.

Nyayo Tea Zones Development Corporation
Reports and Accounts for the Year Ended 30th Jun 2018

(h) Trade Payables (Creditors) and Accruals

Payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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.

(i) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

(j) Consolidation

The financial statements for year ending 30 June 2018 have been consolidated with those of the subsidiary company (Kipchabo Tea Factory Ltd) which is wholly owned by the Corporation.

(k) 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.

(l) Related Party disclosures

The corporation is involved in processing of Green leaf tea by its fully owned company (Kipchabo Tea Factory Ltd).

(m) Biological Assets

Biological assets are measured on initial recognition and at each reporting date at fair value less cost to sell. Costs to sell include all costs that would be necessary to sell the assets including transportation costs. Any changes to the fair value are recognised in profit or loss in the period in which they arise.

(n) Contingent Liabilities

In line with IAS 37, Clause 19 which states "An entity should not recognize a contingent liability. An entity should disclose a contingent liability, unless the possibility of the outflow of resources embodying economic benefits is remote" the Corporation does not recognize a contingent liability hence the disclosure of two contingences.

- i. Lawsuit Case No. 120 of 2018 Eldoret ELRC, Silvester K. Kaitany -Vs-Nyayo Tea Zones Development Corporation. An individual in Elgeyo Marakwet County one Silvester Kaitany has laid claim to the Corporations land measuring 17.34 hectares who claims he was allocated the land in 1999. The plaintiff has claimed for General damages for ksh. 98,120,000 on loss of profits plus Ksh. 16,000,000 Special damages on trees that were on the land. The process of de-gazettement is questionable considering that the Corporation was not consulted over the issue being an interested party. In addition, the claim is time barred having passed the 12 years requirement for advance possession. Further to this the plaintiff cannot claim for loss of profits on land he had not invested on. The Corporation has filed its defense and is awaiting outcome on determination of the matter. Management has no reason to believe that the case will have materially adverse effect on the financial position of the Corporation.
- ii. Constitution Case No. 7 of 2016, Beatrice Wanjiru & Others Versus Hon. Attorney General & Nyayo Tea Zones Development Corporation. During the initial days of the Corporation establishment in 1980s, the Government tasked the then provincial administration to engage casuals to clear fields for planting tea. A group of individuals who worked as casual workers during the establishment sued the Corporation claiming they were not paid their dues amounting to ksh.500 million. The Corporation filed its defense and upon determination their case was dismissed by the High Court. The claimants filed an appeal in the Court of Appeal Case No. 79 Of 2018 at Nyeri which is ongoing. The Corporation management has no reason to believe that the disposition of this case will have a material adverse effect on the financial position of the Corporation.

NOTES TO THE ACCOUNTS

| 2 (a) Turnover | 2017/2018 | 2016/2017 |
|--------------------------------------|-----------------------------|-----------------------------|
| | Kshs | Kshs |
| Green Leaf Sales | 1,428,177,000 | 1,165,662,664 |
| Less Intercompany (Kipchabo Factory) | (405,390,400) | (308,025,984) |
| Sale of Finished Tea | 1,145,255,633 | 859,527,511 |
| Transport refund | 10,152,095 | 8,021,379 |
| Fuelwood sales | 583,950 | 670,000 |
| | <u>2,178,778,278</u> | <u>1,725,855,570</u> |

Green leaf sales relates to sale of green leaf to various KTDA factories and the transport refund which accrue to the Corporation on all green leaf delivered by Corporation fleet.

2 (b) Cost of Production

| | | |
|---|-----------------------------|---------------------------|
| Plantation Labour | 335,384,906 | 285,006,767 |
| Farm Inputs | 144,663,404 | 106,374,530 |
| Transport | 51,292,765 | 49,302,654 |
| KTDA Charges | 183,366 | - |
| Kipchabo Tea factory cost of Production | 936,088,129 | 712,836,782 |
| Less Intercompany (Kipchabo Factory) | (405,390,400) | (308,025,984) |
| | <u>1,062,222,169</u> | <u>845,494,749</u> |

NOTES TO THE ACCOUNTS -Continued

| | 2017/2018 | 2016/2017 |
|--|-------------------|-------------------|
| | Kshs | Kshs |
| 2 (c) Other Income | | |
| Interest Income | 26,804,428 | 23,029,970 |
| Dividends from KTDA factories | 1,444,875 | 1,334,110 |
| Miscellaneous Income | 4,174,419 | 5,379,066 |
| Kipchabo Tea Factory Ltd Other Income/Loss | (1,698,557) | 1,701,426 |
| | 30,725,165 | 31,444,573 |

This relates to income from treasury bills interest, interest earned on bank deposits, dividends from investments in KTDA factories and sale of tenders.

3. Administrative Expenses

(a) Employment expenses

| | | |
|--|--------------------|--------------------|
| Salaries and wages | 139,291,613 | 118,698,684 |
| House Allowance | 30,855,921 | 30,263,769 |
| Leave Allowance | 2,380,406 | 6,227,446 |
| Commuter & Other allowances | 46,424,254 | 46,977,984 |
| Medical Allowance | 19,869,634 | 21,638,407 |
| Staff Welfare | 1,966,836 | 2,743,896 |
| Social Security Expenses | 14,880,946 | 13,368,750 |
| Staff Uniforms | 12,438,312 | 164,070 |
| Staff Training | 13,879,265 | 22,276,271 |
| Travelling & Subsistence | 19,162,681 | 37,170,994 |
| Kipchabo Tea Factory Employment Expenses | 56,528,141 | 46,624,269 |
| | 357,678,011 | 346,154,539 |

(b) Other administration expenses

| | | |
|--|-------------------|-------------------|
| Advertising Marketing & Publicity | 1,420,206 | 3,572,681 |
| Donations | 1,114,546 | 1,016,193 |
| Audit fees | 1,363,550 | 2,727,100 |
| Printing & Stationery | 3,450,981 | 4,195,260 |
| Telephone & Postage | 6,054,529 | 6,199,763 |
| Publications & Periodicals | 871,594 | 772,955 |
| General Office Expenses | 6,466,517 | 2,820,885 |
| Transport Operating | 5,699,196 | 5,478,073 |
| Legal & Professional | 26,520,866 | 6,859,593 |
| Cleaning | 1,093,489 | 901,515 |
| Bank charges | 2,337,100 | 2,007,977 |
| Kipchabo Tea Factory Administration Expenses | 34,247,653 | 33,893,343 |
| | 90,640,227 | 70,445,337 |

(c.) Directors' Expenses

| | | |
|----------------|------------|------------|
| Board Expenses | 11,367,701 | 12,696,555 |
|----------------|------------|------------|

NOTES TO THE ACCOUNTS -Continued

| 4. Other operating expenses | 2017/2018 | 2016/2017 |
|---|--------------------|--------------------|
| Establishment: | Kshs | Kshs |
| Rent & Rates | 2,479,850 | 2,202,160 |
| Light & Water | 837,304 | 1,718,170 |
| Repairs & Maintenance | 11,266,306 | 8,292,826 |
| Licences | 406,331 | 1,974,346 |
| Insurance | 13,203,904 | 9,744,910 |
| Security | 3,197,125 | 2,523,632 |
| Depreciation | 42,402,140 | 41,402,846 |
| Amortization | 52,290,076 | 52,290,076 |
| Kipchabo Factory Ltd Other operating expenses | 76,724,048 | 59,768,840 |
| Total Expenses | 202,807,084 | 179,917,806 |
| 5. Finance Cost | | |
| Exchange Gain/ (Loss) | 4,532,453 | 11,249,597 |
| Interest on UBA Loan | 17,103,224 | 15,373,257 |
| Interest on UBA Loan-Kipchabo Factory Ltd | - | - |
| | 21,635,677 | 26,622,854 |

Operating Profit

The following items have been charged in arriving at the operating profit.

| | | |
|---|------------|------------|
| Depreciation Property Plant & Equipment | 42,402,140 | 41,402,846 |
| Depreciation Biological Assets | 52,290,076 | 52,290,076 |
| Auditor's Remuneration | 1,363,550 | 2,727,100 |
| Kipchabo Factory Ltd Depreciation | 55,457,588 | 56,412,263 |

| 6. Biological Assets | 2017/2018 | 2016/2017 |
|-----------------------------|--------------------|--------------------|
| | Kshs | Kshs |
| | Forest | Total |
| | Kshs | Kshs |
| Balance as at 1st July 2017 | 768,558,007 | 751,119,949 |
| Changes in value | 7,350,331 | 17,438,057 |
| 30th Jun 2018 | 775,908,338 | 768,558,007 |

7. Property Plant & Equipment

7 Property, Plant & Equipment - Bearer Plants (Tea Plantations)

| | Tea | Work-In progress tea | Total |
|-------------------------------------|----------------------|-----------------------------|----------------------|
| | Kshs | Kshs | Kshs |
| Balance as at 1st July 2017 | 1,045,801,514 | 406,586,711 | 1,452,388,225 |
| Additions | - | 337,703,781 | 337,703,781 |
| 30th Jun 2018 | 1,045,801,514 | 744,290,492 | 1,790,092,006 |
| Depreciation | | | |
| Balance as at 1st July 2017 | 104,580,151 | - | 104,580,151 |
| Charge for the year | 52,290,076 | - | 52,290,076 |
| 30th Jun 2018 | 156,870,227 | - | 156,870,227 |
| Balance as at 30th June 2018 | 888,931,287 | 744,290,492 | 1,633,221,779 |
| 30th June 2017 | 941,221,363 | 406,586,711 | 1,347,808,074 |

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Note 8 - Other Property, Plant and Equipment

| 2017/2018 | Land & Buildings Kshs | Work in Progress * Kshs | Factory Buildings Kshs | Factory Machinery Kshs | Furniture & Fixtures Kshs | Office Equipment Kshs | Computers & Assessories Kshs | Tractors & Trailers Kshs | Motor Vehicles Kshs | Farm Tools & Implements Kshs | Total Kshs |
|---|--------------------------|----------------------------|------------------------------|---------------------------|------------------------------|--------------------------|------------------------------------|--------------------------------|------------------------|------------------------------------|---------------|
| Cost | | | | | | | | | | | |
| 1 July 2017 | 376,785,551 | 239,898,345 | 456,210,224 | 492,339,116 | 47,429,701 | 5,237,931 | 71,450,323 | 28,496,702 | 361,361,204 | 8,701,911 | 2,087,911,007 |
| Disposals | | | | | | | (49,994) | (49,500) | (20,847,180) | | (20,946,674) |
| Additions | | 233,635,594 | 4,459,137 | 15,006,573 | 1,912,076 | 6,259,208 | 3,810,119 | | 56,712,500 | | 321,795,207 |
| 31 Jun 2018 | 376,785,551 | 473,533,939 | 460,669,360 | 507,345,689 | 49,341,777 | 11,497,139 | 75,210,449 | 28,447,202 | 397,226,524 | 8,701,911 | 2,388,759,540 |
| Depreciation | | | | | | | | | | | |
| 1 July 2017 | 21,012,239 | - | 60,675,128 | 188,995,601 | 44,707,769 | 5,052,848 | 69,079,506 | 25,736,494 | 281,964,301 | 8,339,990 | 705,563,875 |
| Charge for the year | 7,137,323 | | 9,213,387 | 33,183,322 | 1,512,604 | 1,605,501 | 2,147,786 | 828,021 | 42,118,684 | 113,100 | 97,859,728 |
| Disposal | | | | | | | (16,663) | (49,500) | (20,847,180) | | (20,913,343) |
| 31 Jun 2018 | 28,149,562 | - | 69,888,515 | 222,178,923 | 46,220,373 | 6,658,348 | 71,210,629 | 26,515,015 | 303,235,805 | 8,453,090 | 782,510,260 |
| Net Book Value | | | | | | | | | | | |
| 31 Jun 2018 | 348,635,990 | 473,533,939 | 390,780,845 | 285,166,766 | 3,121,404 | 4,838,790 | 3,999,820 | 1,932,187 | 93,990,719 | 248,821 | 1,606,249,281 |
| 30 June 2017 | 355,773,313 | 240,329,195 | 395,535,096 | 303,343,515 | 2,706,481 | 94,604 | 2,386,267 | 2,395,208 | 79,396,897 | 386,551 | 1,382,347,132 |
| * Work-in-Progress comprises buildings for which construction is ongoing. Once they are completed they will be reclassified under building: | | | | | | | | | | | |
| 2016/2017 | Land & Buildings Kshs | Work in Progress * Kshs | Factory Buildings Kshs | Factory Machinery Kshs | Furniture & Fixtures Kshs | Office Equipment Kshs | Computers & Assessories Kshs | Tractors & Trailers Kshs | Motor Vehicles Kshs | Farm Tools & Implements Kshs | Total Kshs |
| Cost | | | | | | | | | | | |
| 1 July 2016 | 347,705,553 | 89,583,753 | 452,542,378 | 477,972,274 | 47,330,976 | 5,312,885 | 69,015,918 | 24,721,598 | 356,051,269 | 8,909,541 | 1,879,146,145 |
| Disposals | | | | | | | | (365,000) | (23,430,712) | (660,030) | (24,455,742) |
| Additions | | 179,394,590 | 3,667,845 | 14,366,842 | 98,725 | 155,551 | 2,434,405 | 4,140,104 | 28,642,000 | 452,400 | 233,352,461 |
| Reclassification | 29,079,998 | (29,079,998) | | | | (230,505) | | | | | (230,505) |
| 30 Jun 2017 | 376,785,551 | 239,898,345 | 456,210,224 | 492,339,116 | 47,429,701 | 5,237,931 | 71,450,323 | 28,496,702 | 361,262,557 | 8,701,911 | 2,087,912,360 |
| Depreciation | | | | | | | | | | | |
| 1 July 2016 | 13,874,876 | - | 51,550,923 | 156,255,050 | 42,911,540 | 4,955,058 | 65,188,095 | 24,721,597 | 261,023,827 | 8,739,540 | 629,220,501 |
| Charge for the year | 7,137,363 | | 9,124,204 | 32,740,551 | 1,811,679 | 188,269 | 3,875,960 | 1,379,897 | 41,387,185 | 170,000 | 97,815,109 |
| Disposal | | | | | | | | (365,000) | (20,545,353) | (660,030) | (21,570,383) |
| 30 Jun 2017 | 21,012,239 | - | 60,675,128 | 188,995,601 | 44,723,219 | 5,143,327 | 69,064,056 | 25,736,494 | 281,865,660 | 8,249,510 | 705,465,227 |
| Net Book Value | | | | | | | | | | | |
| 31 Jun 2017 | 355,773,313 | 239,898,345 | 395,535,096 | 303,343,515 | 2,706,481 | 94,604 | 2,386,267 | 2,760,208 | 79,396,897 | 452,401 | 1,382,347,132 |
| 30 June 2016 | 333,830,677 | 89,583,753 | 400,991,455 | 321,717,224 | 4,419,435 | 357,828 | 3,827,823 | - | 95,027,441 | 170,001 | 1,249,925,644 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. Long-term Investments

This relates to the Corporations shareholding at various KTDA factories (Appendix I)
The investments are stated at cost as there is no available market values.

| 10. Inventories | 2017/2018 Kshs | 2016/2017 Kshs |
|----------------------------------|---------------------------|---------------------------|
| Farm Inputs & Nursery Materials | 28,964,855 | 24,965,899 |
| Kipchabo Tea Factory Inventories | 113,503,929 | 89,107,265 |
| | <u>142,468,784</u> | <u>114,073,164</u> |

Stocks are valued at lower of cost or net realizable.

11. Trade & Other Receivables

Trade Debtors

| | | |
|--------------------------|---------------------------|---------------------------|
| KTDA- Green leaf debtors | 708,472,718 | 635,093,132 |
| KTDA- Transport refund | 5,135,987 | 5,773,022 |
| Sisibo tea factory | 2,696,240 | - |
| Kiptagich Tea Factory | 14,708,463 | 48,766,313 |
| Kaisugu Tea Factory | 1,517,925 | 8,017,925 |
| Elgon Tea & Coffee | 2,268,448 | 2,848,736 |
| Accrued Interest | 2,113,880 | 827,826 |
| Kipchabo Factory Debtors | 70,709,151 | 86,292,994 |
| | <u>807,622,812</u> | <u>787,619,948</u> |

Kipchabo Factory Debtors are receivables for finished tea due from customers of the factory

Prepayments

| | | |
|----------------|--------------------------|---------------------------|
| Other Deposits | 89,170,322 | 117,083,302 |
| | <u>89,170,322</u> | <u>117,083,302</u> |

Imprests, Advances and Loans

| | | |
|--------------------------|---------------------------|---------------------------|
| Temporary Imprest | 9,113,337 | 5,255,242 |
| Provision Doubtful debts | (3,300,782) | (3,300,782) |
| Standing Imprests | 1,075,408 | 858,538 |
| Wages Imprests | 3,594,510 | 2,254,605 |
| Insurance claims | 1,472,285 | 2,298,861 |
| Staff loans | 1,911,460 | 1,833,461 |
| | <u>13,866,219</u> | <u>9,199,924</u> |
| | <u>910,659,353</u> | <u>913,903,174</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | 2017/2018 Kshs | 2016/2017 Kshs |
|--|---------------------------|---------------------------|
| 12. Cash & Cash Equivalents | | |
| Zone Accounts Cash balances | 3,059,908 | 7,453,237 |
| Savings Account | 3,009,347 | 1,654,417 |
| Current Account | 14,701,816 | 45,923,842 |
| Fixed Deposits | 255,726,541 | 173,672,830 |
| UBA Bank Account | 5,452,809 | 5,762,396 |
| Credit Bank Account | 191,232 | - |
| Current Account- Project | 1,895 | 1,101 |
| Cash in Hand | 145,991 | 212,693 |
| Kipchabo Factory Cash & Cash Equivalents | 28,185,540 | 6,497,000 |
| | <u>310,475,079</u> | <u>241,177,516</u> |

13. General Fund

| | | |
|-------------------|-----------------------------|-----------------------------|
| Accumulated Fund | 1,307,068,970 | 1,282,068,970 |
| ADF Grant | 741,760,713 | 741,760,713 |
| Reserves | 2,869,206,973 | 2,429,212,027 |
| Proposed Dividend | 23,157,629 | 13,798,415 |
| | <u>4,941,194,285</u> | <u>4,466,840,125</u> |

Accumulated Fund relates to the corporations core capital. ADF Grant relates to African Development Bank Green Zone project phase II

14. Commercial Bank Loans

| | | |
|--------------------------|---------------------------|---------------------------|
| Credit Bank loan | 24,656,906 | - |
| UBA Bank Loan | 226,402,736 | 234,918,227 |
| Less due within the year | (116,754,797) | (48,620,596) |
| | <u>134,304,846</u> | <u>186,297,631</u> |

Relates to Commercial Bank loans to finance machinery for Kipchabo and Gatitu Tea Factories

15. Creditors

| | | |
|----------------------------|---------------------------|--------------------------|
| Trade Creditors | 79,909,707 | 22,758,546 |
| Other Creditors | 3,059,908 | 7,453,237 |
| Kipchabo Factory Creditors | 96,889,168 | 56,496,663 |
| | <u>179,858,783</u> | <u>86,708,446</u> |

16. Accruals

| | | |
|---------------------------|--------------------------|--------------------------|
| Dividends Payable | 32,056,190 | 18,257,775 |
| Provision for Gratuity | 7,725,641 | 4,796,839 |
| Accruals | 28,207,683 | 15,628,061 |
| Kipchabo Factory Accruals | 4,419,159 | 5,118,818 |
| | <u>72,408,673</u> | <u>43,801,493</u> |

17. Registration

The Corporation is registered in Kenya through a Gazette notice LN265/1986 as a parastatal and is resident in Kenya.

18. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Nyayo Tea Zones Development Corporation
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SCHEDULE OF LONG-TERM INVESTMENTS

| TEA FACTORIES | 2017/2018 Kshs | Additions | 2016/2017 Kshs |
|----------------------|---------------------------|------------------|---------------------------|
| Chinga | 53,805 | | 53,805 |
| Chebut | 4,565,081 | | 4,565,081 |
| Gacharage | 586,265 | | 586,265 |
| Gachege | 104,085 | | 104,085 |
| Gathuthi | 3,695,973 | | 3,695,973 |
| Gatunguru | 248,720 | | 248,720 |
| Githambo | 35,370 | | 35,370 |
| Githongo | 1,691,950 | | 1,691,950 |
| Gitugi | 628,055 | | 628,055 |
| Gituri | - | | - |
| Ikumbi | 12,665 | | 12,665 |
| Imenti | 482,452 | | 482,452 |
| Iriani | 129,795 | | 129,795 |
| Kagwe | 1,058,117 | | 1,058,117 |
| Kambaa | 266,605 | | 266,605 |
| Kangaita | 174,108 | | 174,108 |
| Kapkoros | 4,192,369 | | 4,192,369 |
| Kapsara | 4,132,845 | | 4,132,845 |
| kapset | 6,031,141 | 84,321 | 5,946,820 |
| Kathangariri | 4,341,130 | | 4,341,130 |
| Kenyenyaini | 38,665 | | 38,665 |
| Kiegoi | 911,240 | | 911,240 |
| Kiru | 555,730 | | 555,730 |
| Kimunye | 553,785 | | 553,785 |
| Kinoro | 1,917,535 | | 1,917,535 |
| Kionyo | 779,500 | | 779,500 |
| Kuri | 534,475 | | 534,475 |
| Makomboki | 210,075 | | 210,075 |
| Mataara | 7,345 | | 7,345 |
| Michimikuru | 117,290 | | 117,290 |
| Mogogosiek | 1,642,290 | 874,370 | 767,920 |
| Mundete | 587,663 | | 587,663 |
| Mungania | 982,320 | | 982,320 |
| Mununga | 76,670 | | 76,670 |
| Ndimba | 277,630 | | 277,630 |
| Ngere | 245,735 | | 245,735 |
| NJunu | 56,485 | | 56,485 |
| Ragati | 1,085,565 | | 1,085,565 |
| Rukuriri | 431,250 | | 431,250 |
| Tergat | 17,065 | | 17,065 |
| Thananga | 1,526,940 | 167,690 | 1,359,250 |
| Theta | 176,445 | | 176,445 |
| Thumaita | 1,913,776 | 11,138 | 1,902,638 |
| Tirgaga | 14,296,719 | 25 | 14,296,694 |
| Weru | 4,166,045 | | 4,166,045 |
| Total | 65,538,769 | 1,137,544 | 64,401,225 |