



KENYA NATIONAL AUDIT OFFICE

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REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
NEW KENYA CO-OPERATIVE CREAMERIES
LIMITED

FOR THE YEAR ENDED
30 JUNE 2014

Paper Laid
By Hon. A. Sule (hon)
on Wed, 29.7.2015.
(Afternoon) Mmw





**NEW
KENYA
CO-OPERATIVE
CREAMERIES LIMITED**

**Reports and Financial Statements
For Financial year ended June 30, 2014**



NEW KENYA CO-OPERATIVE CREAMERIES LIMITED.

Content

| | |
|--|---|
| Company Information | 1 |
| Board of Directors | 1 |
| Chairman's Statement | 1 |
| Management Team | 1 |
| Managing Director's Report | 1 |
| Corporate Governance | 1 |
| Directors Report | 2 |
| Statement of Directors' Responsibilities | 4 |
| Report of Independent Auditors | 4 |

Financial Statements:

| | |
|-----------------------------------|------|
| Statement of comprehensive income | 5 |
| Statement of financial position | 6 |
| Statement of changes in equity | 7 |
| Statement of cash flows | 8 |
| Notes to the Financial Statements | 9-17 |

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED.

KEY ENTITY INFORMATION.

BACKGROUND INFORMATION

The company at cabinet level is represented by the cabinet secretary for Ministry of Industrialization and Enterprise Development, who is responsible for the general policy and strategic direction of the entity

PRINCIPAL PLACE OF BUSINESS

CREAMERY HOUSE
DAKAR ROAD, OFF ENTERPRISE ROAD
INDUSTRIAL AREA
P.O.BOX 30131-00100
NAIROBI

EQUITY BANK LTD
ENTERPRISE BRANCH
P.O.BOX 41895-00100
NAIROBI

REGISTERED OFFICE.

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

SOLICITORS

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

BANKERS

CO-OPERATIVE BANK OF KENYA LIMITED
INDUSTRIAL AREA BRANCH
NANYUKI ROAD
P.O. BOX 18119- 00500
NAIROBI.

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

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

SECRETARY

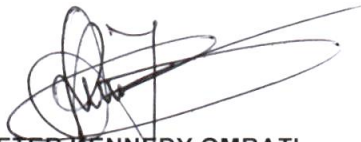
PETER KENNEDY OMBATI
CREAMERY HOUSE
DAKAR ROAD, OFF ENTERPRISE ROAD
P.O. BOX 30131-00100
NAIROBI

STANDARD CHARTERED BANK OF KENYA LIMITED
INDUSTRIAL AREA BRANCH.
P.O. BOX 18081-00500
NAIROBI.

AUDITORS

AUDITOR GENERAL
KENYA NATIONAL AUDIT OFFICE
P.O. BOX 30084-00100
NAIROBI

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



PETER KENNEDY OMBATI

COMPANY SECRETARY

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED.

DIRECTORS REPORT

The directors submit their report and the audited financial statements for the year ended 30 June 2014 which show the state of the company affairs.

New Kenya co-operative creameries ltd is

1. PRINCIPAL ACTIVITY

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

2. OPERATIONS AND INCORPORATION

On 24 June 2003, New Kenya Co-operative Creameries (NKCC) Limited was registered under the Co-operative Societies Act to facilitate the takeover of all assets, business, control and management of Kenya Co-operative Creameries (KCC) 2000 Limited. On the 19 November 2004, NKCC Limited was incorporated under the Companies Act with 100% Government of Kenya Shareholding to take over the business from NKCC the Co-operative Society.

3. RESULTS

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

4. DIVIDENDS

The directors do recommend the payment of dividend of Kshs 3,300,000 in respect of the year ended 30 June 2014.

5. DIRECTORS

The Directors who served during the period 1st July 2013 - 30th June 2014 and to the date of this report were:-

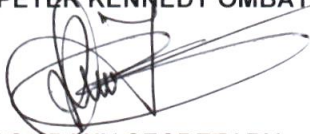
| | |
|-------------------------------|--|
| Matu Wamae | Chairman Re-appointed 1 st January 2011.Re-appointed 1 st January 2014. |
| Nixon K. Sigey | Managing Director – Appointed on 1 st January 2015 |
| Dr Kipkirui Arap Langat, OGW | Managing Director – Revoked on 31 st December 2014 |
| Dr. Kamau Thugge | Appointed on 28 th June 2013 |
| <i>Mrs. Beatrice Gathirwa</i> | <i>(Alternate to PS –Treasury)</i> |
| Dr. Wilson Songa | Appointed on 28 th June 2013 |
| <i>E. M. Irungu</i> | <i>(Alternate to PS-Industrialization)</i> |
| Dr. Khadijah Kassachom | Appointed on 28 th June 2013. Replaced by Prof H.K Segor on 14 th August 2014. |
| Prof H.K Segor | Appointed on 28 th June 2013. |
| <i>Julius Kiptarus</i> | <i>(Alternate to PS-Agriculture)</i> |

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED.

| | |
|-------------------|---|
| David Mogere | Reappointed on 1 st January 2011. Term ended 31 st December 2013. |
| Riziki Musa Spana | Reappointed on 1 st January 2011. Term Ended 31 st December 2013. |
| Dr. Samson Mutai | Appointed on 7 th September 2012 |
| Mary .M.W. Munene | Appointed on 1 st July 2011. Term ended 30 th June 2014. |
| William.W. Kabera | Appointed on 1 st July 2011. Term ended 30 th June 2014 |

By Order of the Board

PETER KENNEDY OMBATI



COMPANY SECRETARY

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

ON THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

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

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

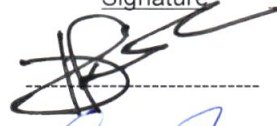
Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Name

Signature

Date

SIGETNK



MAGI WAMBE



REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON NEW KENYA CO-OPERATIVE CREAMERIES LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of New Kenya Cooperative Creameries Limited set out on pages 5 to 17, which comprise the statement of financial position as at June 30 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

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

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

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

Basis for Qualified Opinion

1. Non- Current Assets

- i) As previously reported, property, plant and equipment balance of Kshs.2,812,215,437 as at 30 June 2014, includes an amount of Kshs.1,906,927,500 representing the value of forty nine (49) properties whose title documents were not made available for audit verification.
- ii) Further and as previously reported, the property, plant and equipment balance also excludes fifteen (15) parcels of land and buildings which have never been valued.
- iii) The property, plant and equipment balance further includes sixteen (16) disputed properties with a book value of Kshs.222,500,000 and registered in the name of third parties. However, the market valuation report gives a value of Kshs.750,000,000 for the disputed properties.
- iv) Five (5) title deeds for property valued at Kshs.1,104,882,500 are charged and held in a local commercial bank as collateral for an outstanding obligation.
- v) The company has failed to disclose in the financial statements that the Ethics and Anti Corruption Commission had cleared two disputed properties LR No.37/371 and LR No. 37/22 situated in Upper Hill, Nairobi which had legally been transferred to third parties.

In the circumstances, and in the absence of the title deeds and related records, it has not been possible to confirm the ownership status of the respective properties and that property, plant and equipment balance of Kshs.2,812,215,437 was fairly stated as at 30 June 2014.

2. Trade Receivables and Pre-Payments

Trade receivables and pre-payments balance stood at Kshs.1,518,081,018 as at 30 June 2014. However, the following observations have been made:-

- i. Included in this balance are refer to a drawer cheques amounting to Kshs.24,438,677, some of which have been outstanding for over one year.

- ii. Further, included in the trade Receivables and Pre-Payments balance are staff debts amounting to Kshs.22,505,376, out of which an amount of Kshs.9,355,033 relates to staff who left the company although the amount has been fully provided for.
- iii. As previously reported, the balance also includes Ksh.4,948,922 owed by a firm in respect of goods supplied by the company and the firm has disputed the debt. Arbitration efforts have not yielded any results.

In the circumstances, it has not been possible to confirm the recoverability for trade receivables and prepayments balance of Kshs.1,518,081,018 and that trade receivables and pre-payments balance is fairly stated as at 30 June 2014.


Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the company as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit; and,
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,
- iii. The Company's statement of financial position is in agreement with the books of account.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 May 2015



NEW KENYA CO-OPERATIVE CREAMERIES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

| | | JUNE 2014 | June 2013 |
|--------------------------------------|------|----------------------|----------------------|
| | Note | <u>Ksh</u> | <u>Ksh</u> |
| Revenue | 2 | 7,386,440,485 | 6,441,747,368 |
| Cost of sales | | (5,719,302,139) | (5,277,808,029) |
| Gross profit | | 1,667,138,346 | 1,163,939,339 |
| Other Operating income | 3 | 12,211,364 | 22,248,317 |
| Selling and Distribution Costs | 4 | (777,004,179) | (696,895,876) |
| Administrative Expenses | 5 | (728,709,804) | (694,793,702) |
| Operating profit | | 173,635,727 | (205,501,923) |
| Financing costs | 6 | (165,738,536) | (179,351,525) |
| Profit/(Loss) before Taxation | | 7,867,192 | (384,853,447) |
| Tax credit / (expense) | 9 | 51,170,039 | 150,998,402 |
| Profit/(Loss)for the period | | 59,037,231 | (233,855,045) |
| Profit/(Loss)per share | 8 | 1.08 | (4.28) |

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

| | <u>Note</u> | 2014 | 2013 |
|-------------------------------------|-------------|----------------------|----------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 2,812,215,437 | 2,930,552,894 |
| Prepaid Leases on land | 12 | 817,624,502 | 834,735,474 |
| Investments | 13 | 6,456,475 | 6,456,475 |
| | | 3,636,296,413 | 3,771,744,843 |
| CURRENT ASSETS | | | |
| Inventories | 14 | 1,566,357,434 | 1,577,561,136 |
| Receivables and prepayments | 15 | 1,518,081,018 | 1,471,141,843 |
| Cash and cash equivalents | 16 | 58,947,583 | 45,599,951 |
| | | 3,143,386,035 | 3,094,302,930 |
| TOTAL ASSETS | | 6,779,682,448 | 6,866,047,773 |
| EQUITY AND LIABILITIES | | | |
| CAPITAL AND RESERVES | | | |
| Share capital | 17 | 547,028,870 | 547,028,870 |
| Revenue Reserves | | 1,806,772,656 | 1,747,735,424 |
| Revaluation Reserves | | 2,320,158,765 | 2,397,979,077 |
| | | 4,673,960,291 | 4,692,743,371 |
| NON-CURRENT LIABILITIES | | | |
| Borrowing | 18 | 212,320,537 | 202,797,245 |
| Deferred tax | 19 | 59,403,222 | 73,732,280 |
| | | 271,723,759 | 276,529,525 |
| CURRENT LIABILITIES | | | |
| Bank Overdraft | 18 | 769,930,638 | 798,738,328 |
| Borrowing | 18 | 148,138,171 | 116,705,163 |
| Payables and accruals | 20 | 887,189,063 | 905,495,827 |
| Gratuity Senior Staff | 21 | 50,552,622 | 58,580,227 |
| Tax payable | 22 | (21,812,095) | 17,255,330 |
| | | 1,833,998,398 | 1,896,774,876 |
| TOTAL EQUITY AND LIABILITIES | | 6,779,682,448 | 6,866,047,773 |

The financial statements on pages 5 to 17 were approved and authorized for issue by the board of Directors on 10/9/14 and were signed on its behalf by;

NIXON K. SIGEY

Managing Director

HON. MATU WAMAE, EBS

Chairman

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

| Notes | Share Capital | Revaluation reserve | Revenue reserve | Total |
|-------------------------------------|--------------------|------------------------|----------------------|----------------------|
| | Ksh | Ksh | Ksh | Ksh |
| Year ended 30th June 2012 | | | | |
| At 1 July 2012 | 547,028,870 | 1,855,678,798 | 1,981,590,470 | 4,384,298,138 |
| Revaluation reserve | - | 542,300,279 | | 542,300,279 |
| Net surplus/ (deficit) for the year | - | - | (233,855,045) | (233,855,045) |
| At 30th June 2013 | 547,028,870 | 2,397,979,077 | 1,747,735,425 | 4,692,743,371 |
| Year ended 30th June 2013 | | | | |
| At 1 July 2013 | 547,028,870 | 2,397,979,077 | 1,747,735,425 | 4,692,743,371 |
| Revaluation reserve | - | (77,820,311) | | (77,820,311) |
| Net surplus/ (deficit) for the year | - | - | 59,037,231 | 59,037,231 |
| At 30th June 2014 | 547,028,870 | 2,320,158,765 | 1,806,772,656 | 4,673,960,291 |

Notes

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

a) Land:-

The land has been valued on the basis of Market Value for the existing use, but taking into consideration the Highest and Best use.

b) Developed land (Land and buildings housing the company operations)

For factories, commercial and residential properties, a triangulation and comparison of three methods that is Sales Comparison Approach, Income Capitalization Approach and Cost Approach has been used to arrive at what is the reasonable market value for existing use.

c) Plant & Machinery and Furniture.-

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

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2014

| | Notes | ACTUAL 30TH JUNE 2014 KSHS | ACTUAL 30TH JUNE 2013 KSHS |
|---|-----------|-------------------------------------|----------------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 23 | 498,592,254 | (150,263,017) |
| Interest paid | 6 | (143,923,108) | (161,474,880) |
| Income tax paid | 22 | (2,226,447) | (99,929,879) |
| Net cash generated from operating activities | | 352,442,702 | (411,667,776) |
| CASH FLOWS TO/FROM INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment | 11 | (351,243,676) | (83,260,573) |
| Net cash flows used in investing activities | | (351,243,676) | (83,260,573) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of borrowings | | 40,956,299 | (89,380,760) |
| Dividend paid | | - | - |
| Investment | | - | - |
| Net cash used in financing activities | | 40,956,299 | (89,380,760) |
| NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENT | | 42,155,325 | (584,309,110) |
| CASH AND CASH EQUIVALENTS AT START OF THE YEAR | | - | (168,829,268) |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 16 | (710,983,052) | (753,138,378) |

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

1. SIGNIFICANT ACCOUNTING POLICIES

a). Basis of Accounting

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

Changes in accounting policy and disclosures

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

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

b). Revenue Recognition

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

c) . Property, Plant and Equipment and Depreciation

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

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

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

The annual depreciation rates in use are:-

| | | |
|--------------------------------|---|-------|
| Buildings | - | 5% |
| Motor Vehicles | - | 25% |
| Industrial plant and machinery | - | 12.5% |
| Office equipment | - | 12.5% |
| Office Furniture & fittings | - | 12.5% |
| Computers and accessories | - | 33.3% |
| Loose tools | - | 12.5% |
| Cans & crates | - | 33.3% |

Freehold land is not depreciated.

d). Leases of Land

Lease of land are classified as operating leases. The costs incurred to acquire the land is included in the financial statements as long term prepayments, which is amortized in the profit and loss account on straight line basis over the lease period.

e). Stocks

Stocks are valued at the lower of cost and net realizable value. Cost comprises expenditure incurred in the normal course of business, including direct material costs, labor and production overheads whenever appropriate on a weighted average basis. Net realizable value is the price at which the stock can be realized in the normal course of business after allowing for the cost of realization and, where appropriate, the cost of conversion from its existing state to a realizable condition. Provision is made for obsolete, slow moving and defective stocks.

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS CONT.

FOR THE YEAR ENDED 30 JUNE 2014

f). Foreign Currency

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

g). Retirement Benefit Costs

The company operates a provident scheme for its employees. The assets of the scheme are held in a separate trustee administered fund.

The company also contributes to a statutory defined contribution pension scheme, The National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs 200 per employee per month.

The company's contributions to the above schemes are charged to a profit and loss account in the period to which they relate.

h). Employee Entitlement

Employee entitlement to gratuity and long service awards are recognized when they accrue to employees.

A provision is made for the liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

The monetary liability for employees' accrued annual leave entitlements at the balance sheet date is recognized as an expense accrual.

i). Bad and Doubtful Debts

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

j). Taxation

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

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

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

k). Cash and Cash Equivalents

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

l) Earnings per share

This is basic earnings per share obtained by dividing profitability by number issued shares. The government was allotted 10 shares of Kshs 54,702,887 after payment to KCC 2000 Ltd.

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS CONT.
FOR THE YEAR ENDED 30 JUNE 2014

| | 30th June 2014 | 30th June 2013 |
|---|----------------------------------|----------------------------------|
| 2) Revenue | | |
| Liquid Milk | 5,601,893,014 | 4,954,660,468 |
| Other dairy products | 1,849,021,856 | 1,565,433,334 |
| Less: Transport rebates and Discounts | (64,474,385) | (78,346,434) |
| | 7,386,440,485 | 6,441,747,368 |
| 3) Other Operating Income | | |
| Rent(from investment property) | 8,462,373 | 10,328,470 |
| Other miscellaneous income | 3,748,992 | 11,919,847 |
| | 12,211,364 | 22,248,317 |
| 4) Selling and Distribution Costs | | |
| Distribution Costs | 403,041,027 | 347,092,358 |
| Advertising and Promotion | 54,651,266 | 51,663,814 |
| Selling Expenses | 319,311,886 | 298,139,704 |
| | 777,004,179 | 696,895,876 |
| 5) Administrative Expenses | | |
| Staff Costs | 248,195,014 | 266,625,055 |
| Director Expenses | 8,019,552 | 10,813,976 |
| Other Administrative Expenses | 472,495,239 | 417,354,671 |
| | 728,709,804 | 694,793,702 |
| 6) Net Financing Costs | | |
| Bank Charges and Commission | 19,270,551 | 20,606,649 |
| Exchange Loss/(Gain) | 2,574,876 | (2,730,004) |
| Interest on Overdraft | 99,378,788 | 112,072,816 |
| Interest on Loan | 44,544,321 | 49,402,065 |
| | 165,768,536 | 179,351,525 |
| 7) Profit/(Loss) before tax is arrived at after charging /(Crediting): | | |
| Depreciation on Plant, Property and Equipment | 408,871,796 | 427,008,465 |
| Trade Receivable-Provision for Impairment Losses | 54,024,115 | 50,951,851 |
| Loss on disposal of plant, property and equipment | 0 | 871,365 |
| Repairs and Maintenance | 7,526,521 | 19,008,347 |
| Employee benefits expenses(note 8) | 778,734,361 | 649,612,973 |
| Directors emoluments | 8,019,552 | 10,813,976 |
| Auditors Remuneration | 1,500,000 | 1,980,000 |

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS CONT.
FOR THE YEAR ENDED 30 JUNE 2014

| | 30th June 2014 | 30th June 2013 |
|--|----------------------------------|----------------------------------|
| 8) Employee Benefits Expense | | |
| Salaries and Wages | 740,325,073 | 641,140,128 |
| Pension cost- Company Contribution | 26,268,491 | 26,379,131 |
| National Social Security Fund | 3,725,389 | 3,584,959 |
| Leave provision | 8,415,408 | (21,491,245) |
| | 778,734,361 | 649,612,973 |
| 9) Income Tax Expense | | |
| Current tax | (36,840,981) | 3,098,541 |
| Deferred tax | (14,329,058) | (154,096,943) |
| Under/(over)provision of deferred tax prior years | | |
| Tax on business income | (51,170,039) | 3,098,541 |
| Tax on rent income | | |
| Total tax expense | (51,170,039) | (150,998,402) |
| 10) Earnings per share | | |
| Earnings per share is calculated by dividing the profit/(loss) attributable to the owners of the company by the weighted average number of ordinary shares | | |
| Basic earnings per share | 1.08 | (4.28) |

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS CONT.
FOR THE YEAR ENDED 30 JUNE 2014

11).PLANT, PROPERTY & EQUIPMENT

| | Building Ksh | Machinery &plant Ksh | Equipment & Loose Tools Ksh | Furniture &fittings Ksh | Cans &crates Ksh | Autos &trucks Ksh | Computer & Accessories Ksh | Freehold Land | Capital w.i.p Ksh | Total Ksh |
|--|-----------------|----------------------------|---|-------------------------------|------------------------|-------------------------|----------------------------------|------------------|-------------------------|---------------|
| Cost 1 st July2012 | 2,512,597,594 | 1,860,226,668 | 34,000,286 | 13,392,779 | 90,641,182 | 406,276,586.00 | 319,291,757 | 150,000,000 | 94,095,728 | 5,480,522,579 |
| Additions | 7,538,591 | 37,946,990 | 6,456,879 | 599,136 | 7,740,832 | 3,268,029 | 5,695,524 | | 14,014,593 | 83,260,573 |
| Transfers To Fixed Assets | 6,614,091 | 59,491,506 | | | | | 8,794, 800 | | (74,900,397) | 0 |
| Disposals | - | | | | | (14,895,191) | | | | (14,023,826) |
| 30 th June 2013 | 2,526,750,276 | 1,957,665,164 | 40,457,165 | 13,991,916 | 98,382,014 | 394,649,424 | 333,782,081 | 150,000,000 | 33,209,924 | 5,548,887,962 |
| Depreciation 1 st July2012 | 1,007,932,646 | 508,784,470 | 12,562,881 | 4,237,000 | 81,763,218 | 338,879,271 | 190,481,604 | | | 2,144,641,090 |
| Charge | 126,025,263 | 235,245,042 | 3,918,191 | 1,729,166 | 6,590,429 | 34,544,447 | 79,665,265 | | | 487,717,803 |
| Disposals | - | | - | - | | (14,023,826) | | | - | (14,023,826) |
| Depreciation 30 th June 2013 | 1,133,957,909 | 744,029,511 | 16,481,072 | 5,966,166 | 88,353,647 | 359,399,892 | 270,146,870 | | 0 | 2,618,335,068 |

**NEW KENYA CO-OPERATIVE CREAMERIES LIMITED ,
NOTES TO THE FINANCIAL STATEMENTS CONT.
FOR THE YEAR ENDED 30 JUNE 2014**

| | | | | | | | | | | |
|---|---------------|---------------|------------|------------|-------------|-------------|-------------|-------------|--------------|---------------|
| N.B.V 30.06.2013 | 1,392,792,367 | 1,213,635,653 | 23,976,093 | 8,025,748 | 10,028,367 | 35,249,532 | 63,635,211 | 150,000,000 | 33,209,924 | 2,930,552,895 |
| Cost 1 st July 2013 | 2,526,750,276 | 1,957,665,164 | 40,457,165 | 13,991,915 | 98,382,014 | 394,649,424 | 333,782,081 | 150,000,000 | 33,209,924 | 5,548,887,963 |
| Additions | | 159,616,562 | 13,511,593 | 462,118 | 11,214,400 | 32,131,052 | 30,484,297 | | 103,823,654 | 351,243,676 |
| Transfers To Fixed Assets | | 13,129,770 | | | | | | | (13,129,770) | - |
| Disposals | | | | | | | | | | - |
| TOTAL 1 st July 2013 | 2,526,750,276 | 2,130,411,496 | 53,968,758 | 14,454,033 | 109,596,414 | 426,780,476 | 364,266,378 | 150,000,000 | 123,903,808 | 5,900,131,638 |
| Depreciation 1 st July 2013 | 1,133,957,909 | 744,029,511 | 16,481,072 | 5,966,166 | 88,353,647 | 359,399,892 | 270,146,870 | | | 2,618,335,067 |
| Charge | 126,337,514 | 250,269,436 | 4,480,940 | 1,753,101 | 6,773,109 | 28,819,052 | 51,147,983 | | | 469,581,135 |
| Disposals | | | | | | | | | | |
| Depreciation 30th June 2014 | 1,260,295,423 | 994,298,947 | 20,962,012 | 7,719,267 | 95,126,756 | 388,218,944 | 321,294,853 | | | 3,087,916,202 |
| N.B.V 30.06.2014 | 1,266,454,853 | 1,136,112,548 | 33,006,746 | 6,734,766 | 14,469,658 | 38,561,532 | 42,971,525 | 150,000,000 | 123,903,808 | 2,812,215,437 |

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

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS CONT.
FOR THE YEAR ENDED 30 JUNE 2014

| | 30th June 2014 | 30th June 2013 |
|---|-----------------------|-----------------------|
| 12) Prepaid leases on land | | |
| Cost | | |
| 1st July 2012 | 911,089,220 | 911,089,220 |
| Revaluation | - | - |
| Disposals | | |
| 30th June 2012 | 911,089,220 | 911,089,220 |
| Depreciation | | |
| 1st July 2012 | 76,353,745 | 59,242,772 |
| Charge | 17,110,973 | 17,110,973 |
| Disposals | | |
| 30th June 2013 | 93,464,718 | 76,353,745 |
| Net book values | | |
| 30th June 2014 | 817,624,502 | 834,735,474 |
| 1st July 2013 | 834,735,474 | 851,846,448 |
| 13) Quoted investments | 6,456,475 | 6,456,475 |
| Note: This represents Uchumi supermarkets ltd 767,588 shares that were purchased in May 2011 at market unit price of Kshs 8.42 . | | |
| 14) Inventories | | |
| Raw Materials | 24,003,418 | 25,050,791 |
| Packaging Materials | 154,866,751 | 185,639,326 |
| Finished Goods | 968,100,580 | 939,402,013 |
| Work in Progress | 9,307,950 | 19,814,800 |
| Stores and Supplies | 410,078,734 | 407,654,206 |
| | 1,566,357,434 | 1,577,561,136 |
| 15) Receivables & Prepayments | | |
| Receivables | 1,246,554,342 | 939,411,513 |
| Less :Provision for Bad Debts | (128,423,155) | (146,184,308) |
| Prepaid debtors | (26,775,820) | |
| | 1,091,355,368 | 793,227,205 |
| Prepayments | 8,943,567 | 535,827 |
| Amounts due from related parties(Note 20) | 8,513,106 | 8,563,386 |
| Other Receivables | 409,268,978 | 668,815,426 |
| | 1,518,081,018 | 1,471,141,843 |
| 15) b The prepaid debtors is made up of the following: | | |
| Export | 4,580,846 | |
| Staff | 659,180 | |
| Salesmen | 9,545,852 | |
| Trade | 11,982,942 | |
| 16) Cash and Cash equivalents. | | |
| Cash and bank balances | 58,947,583 | 45,599,951 |
| For the purposes of the cash flow statement , cash and cash equivalents comprise the following | | |
| Cash and bank balances as above | 58,947,583 | 45,599,951 |
| Bank overdraft | (769,930,638) | (798,738,328) |
| | (710,983,055) | (753,138,378) |
| 17) Share capital | | |
| Authorized: 200,000,000 Ordinary shares of Kshs. 10 each | | |
| Issued and fully paid: | | |
| 54,702,887 Shares of Ksh 10 each | 547,028,870 | 547,028,870 |
| This is the amount paid by the Government of Kenya to KCC 2000 Ltd, now for allotment for 10 shares of Kshs 54, 702,887 each. | | |

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS CONT.
FOR THE YEAR ENDED 30 JUNE 2014

23) Cash Generated from Operations

Reconciliation of profit before income tax to cash generated from operations

| | | |
|---|------------------------|--------------------------|
| Profit(Loss) before interest expense | 151,790,300 | (223,378,567) |
| Adjustments for: | | |
| Depreciation on property, plant and equipment | 408,871,796 | 427,008,465 |
| Revaluation reserve amortization | | 620,120,590 |
| Loss on disposal of property, plant and equipment | | 871,365 |
| Changes in Working Capital: | | |
| Inventories | 11,203,702 | (716,018,832) |
| Receivables and prepayments | (46,939,175) | (338,782,716) |
| Payables and accrued expenses | (26,334,370) | 79,916,677 |
| Cash generated from operations | 498,592,254 | (150,263,017) |

24) Related Party Transactions

NKCC Limited is incorporated under the Companies Act with 100% Government of Kenya Shareholding. Outstanding balances arising from Sale and purchase of goods/services.

(i) Amount due from related parties:

| | | |
|-------------------|---------------------|---------------------|
| Kenya Dairy Board | 8,563,385.61 | 8,563,385.61 |
|-------------------|---------------------|---------------------|

(ii) Amount due to related parties:

| | | |
|--|---------------------|----------------------|
| Government of Kenya(Formerly Ministry Of Special Programs) | 2,995,884.00 | 2,995,884 .00 |
|--|---------------------|----------------------|

25) Contingent liabilities

(i) As at 30th June 2014 the company had given guarantees amounting to Kshs 27,175,720 to various Companies and individuals.

(ii) The company is a defendant in various legal actions. In the opinion of the directors, after taking Appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

26) Capital commitments

Amounts Authorized and contracted for **192,551,822.00**
This constitutes engineering projects which the company has contracted suppliers to modify, upgrade and modernize factories.