NEW KENYA CO-OPERATIVE CREAMERIES LTD

ANNUAL REPORT & FINANCIAL STATEMENTS

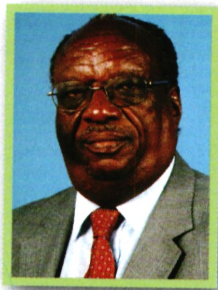
2004

NEW KENYA CO-OPERATIVE CREAMERIES

Life's goodness everyday!

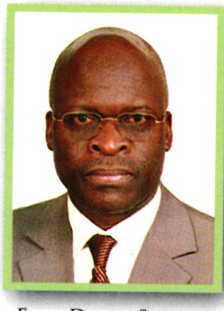
CONTENTS

BOARD OF DIRECTORS

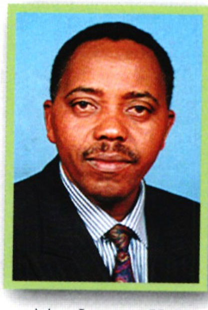


Matu Wamae
Chairman

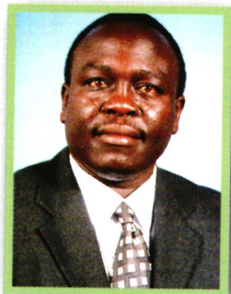
Mr. Solomon Boit
PS - Ministry of Cooperatives Development & Marketing



Eng. David Stower
PS - Ministry of Livestock & Fisheries Development

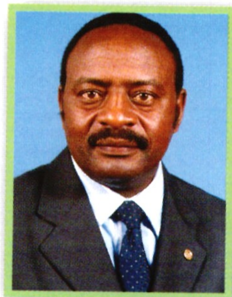


Mr. Joseph Kinyua
PS - Ministry of Finance



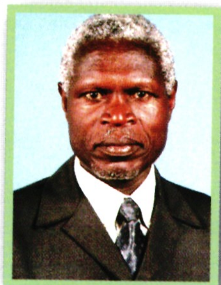
Mr. Timothy Busienei
Director

Mr. Elijah Ireri
Director



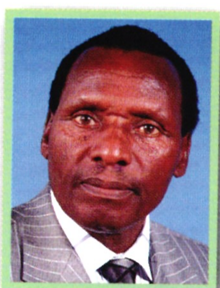
Mr. David Mogere
Director

Eng. Alexander Ng'eno
Director



Mr. John Musakali
Director

Mrs. Riziki Spana
Director



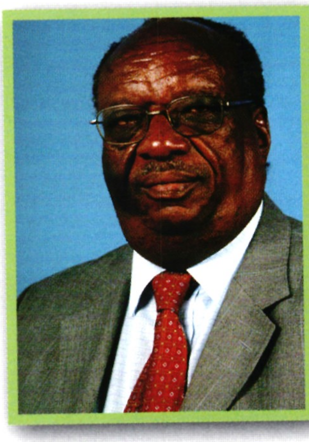
Mr. Prudenzio N. Gaitara
General Manager

Ms. Milcah Mugo
Company Secretary

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
CHAIRMAN'S REPORT

INTRODUCTION

I am pleased to present Annual Report and Financial statements of New Kenya Co-operative Creameries Ltd for the period of 18 months ended 31st December 2004. The results we are reporting on were achieved during the tenure as Chairman of Mr. David Namu who retired on 31st December 2004. We thank Mr. Namu for his service, diligence and commitment to the Company. He has provided a fine leadership and I am honoured to be his successor. Before end of the year, the Government paid KCC 2000 Ltd KShs.547,028,870/= and NKCC became fully owned Government State Corporation under the Ministry of Co-operative Development and Marketing.



MATU WAMAE
CHAIRMAN

The Company has recorded significant growth as a result of our continued rehabilitation of facilities, development of new product brands and expansion of the market reach while pursuing a strategy to diversify and provide innovative products and services. The company has not only grown in terms of size and reach but our name, image and performance have gained even wider recognition.

It is encouraging that improved growth and stability was achieved in the Dairy Industry, both in production and stable prices to the dairy farmers.

ECONOMIC REVIEW

In spite of the difficult business conditions in the country, the domestic economy continued to register positive growth with preliminary estimates indicating a real gross domestic product (GDP) growth of 4.3% in the year 2004.

THE DAIRY SECTOR

Growth indicators were recorded in the Dairy Sector. Milk intake to the processing plants rose from 203 Million litres in 2003 to 274 Million litres in 2004. This was an impressive growth of 35% during the year. The increase was attributed to the regulatory support of the sector, revival of Kenya Co-operative Creameries, favourable weather and growing regional and domestic market of processed milk products. There was a 50% improvement in the producer prices to the farmer by an average of KShs.6/= rising from KShs.12/= at the incoming of the New KCC in June 2003 to a maximum high of KShs.18/= during the year 2004.

There was a recorded improvement in milk intake from farmers by New KCC from as low as 2.3 Million Kgs in July 2003 to monthly intake of 9.0 Million Kgs in May 2004. The total milk delivered to New KCC was 64 Million Kgs with a total payout to farmers of KShs.1.05 Billion. The average monthly milk intake by New KCC was 3.6 Million Kg with an average monthly payout to the farmers of KShs.51 Million.

THE NEW KCC BUY-BACK PROCESS

Following the unfortunate liquidation of KCC Ltd in 1999, its assets were purchased from the Receivers by KCC (2000) Ltd and KCC Holdings Ltd.

In June 2003, the Government of Kenya purchased back the business from KCC (2000) Ltd and KCC Holdings Ltd, with the intention of re-instating it back to the dairy farmers at an appropriate time.

We wish to thank the NARC Government for the interest shown to the dairy farmers and for its participation towards economic recovery of our country. This has brought about general improvement in the dairy industry sub-sector which grew by 35% in 2004.

VALUE ADDED TAX-EXEMPTION

During the eighteen months under review milk was VAT Exempt. The Company paid a substantial amount through purchases, which could not be recovered through the sale of the vatable milk products. A total of KShs.120 Million included in the operating expenses was VAT written off and consequently not claimable from KRA.

With the year 2005/6 Government Budget, milk products are now Zero-rated. This should translate to good results in the forthcoming year, although it will only impact on ½ year results as the zero-rating takes effect from 9th June 2005. It is the intention of NKCC to pass their benefits to the producers and consumers.

The real benefit will however, only come through with improved VAT refund processing. A lot of delays have been experienced in the past, thus affecting working capital of business concerned.

REHABILITATION OF COMPANY FACILITIES

At the onset of New KCC in June 2003, only four processing factories and seven cooling plants were operational. During the period under review, we managed to rehabilitate four processing factories and four cooling plants, all which had been shut down for a long time. By the end of year 2004, only two of the eleven factories had not been re-opened while only one cooling plant was non-operational. At the time of writing this report, only Eldoret factory is non-operational while all cooling plants are fully operational. This went a long way in enhancing collection of milk from farmers country-wide, without discrimination.

COMPANY RESULTS

For the year, the company achieved a gross turnover over of KShs.2.5 Billion. Operating expenses were KShs.2.506 Billion A total of KShs.75,761,816/= were incurred on account of repairs and rehabilitation of facilities, all financed through revenue collections. We were able to institute financial controls and discipline, which created savings for rehabilitation of the facilities and purchase of new assets without resulting to borrowings. There is also in the accounts heavy depreciation of KShs.60,317,358/=. These have had a drastic effect on the company results, which created a net loss of KShs.8 Million.

CORPORATE GOVERNANCE

The company remains steadfast in its commitment to upholding Good and Sound Corporate Governance. In this regard, majority of Board members have attended appropriate Corporate Governance courses. Training of staff has been going on throughout the year.

The company remains focused on the following governance issues:

THE ROLE OF THE BOARD

The Board of Directors is responsible for the long-term growth and profitability of the company. The Board charts the direction and monitors management's performance. It is a critical role of the Board to ensure that the company is pursuing strategies that increase profitability and shareholder value.

BOARD MEETINGS

The Board meets quarterly for scheduled meetings. For specific issues of special nature, special Board meetings are held in between the scheduled quarterly meetings.

The scheduled Board meetings encompass the review of the periodical company performance against set targets as well as monitoring of Business and Operational issues. All Board Committee reports are reviewed and appropriate action taken.

COMPOSITION OF THE BOARD

The Board has a Chairman and majority of independent and Non-Executive Directors. There are currently 10 (ten) non-executive Directors and one Executive Director.

All non-executive directors are independent and free from any business interest, or other relationship that could materially interfere with the exercise of independent judgement.

All the Non-executive Directors are appointed by the Minister for Co-operative Development and Marketing.

BOARD COMMITTEES

The Board carries out certain of its duties by delegation to Board Committees. These Committees meet quarterly for the scheduled meetings and on special occasions where Business of special nature has to be conducted, special Committee meetings are held. The Committees operate under Terms of reference approved by the Board and their duties extend to the operations of the company.

At present there are Four Board Committees. These are Audit Committee, Production, Marketing and Environmental Committee, Staff and Finance Committee and Tender and Procurement Committee.

OUTLOOK FOR YEAR 2005

Having successfully completed the buy-back process, we have now embarked on the finalization of the rehabilitation of the remaining facilities, together with phased acquisition of new facilities. We look forward to completion of transfer of all assets to the NKCC Ltd. This should translate in improved processing capacity, both quantitywise and efficiency. We are now better placed to address the major challenges in the coming year.

We look forward to completion of transfer of all assets to the New KCC.

The key objectives for the coming year will include:

- Growing the Business and increasing profitability
- Further improving on capacity

To achieve these objectives, we have formulated a five-year strategic plan covering the period 2005 to 2009, in which we have encompassed the aspirations of all the stakeholders in the company, under one strategic direction.

BOARD APPOINTMENTS

With effect from 1st January 2005, the following were appointed as Directors of New KCC Ltd:

1. Mr. Matu Wamae (EBS) – Chairman
2. Mr. Joseph Kinyua – Director
3. Mr. Solomon Boit – Director
4. Eng. David Stower – Director
5. Mr. David Mogere – Director
6. Mr. Timothy Busienei – Director
7. Riziki M Spana (Mrs) – Director
8. Mr. Elijah N Ireri – Director
9. Eng. John Musakali – Director
10. Eng. Alexander Ng'eno – Director
11. Mr. Prudenzio Gaitara – General Manager

I take this opportunity to welcome them and trust that their diverse experiences will add value to the Company.

APPRECIATION

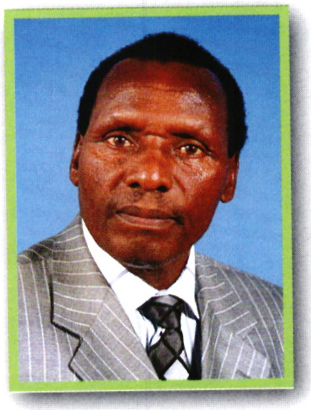
I take this opportunity to sincerely thank the Board and Management who played an invaluable role during the year. I thank them most sincerely for their hard work and dedication.

Lastly, but not least, on my behalf and that of the entire Board and Management and Staff, and the entire NKCC community, I take this opportunity to very sincerely thank all our farmers and our customers for their support and patronage. I also wish to thank the Ministry of Co-operative Development and Marketing, other Government Ministries and all the stakeholders for their continued support. This support and goodwill have enabled NKCC to achieve a dramatic "turnaround" with positive effect in the whole dairy sub-sector and the Kenya economy.

MATU WAMAE (EBS)
CHAIRMAN

Dated June 27, 2005

GENERAL MANAGER'S REPORT



PRUDENZIO N. GAITARA
GENERAL MANAGER

NKCC VISION

The NKCC vision is to be the preferred and profitable dairy company of international standing.

MISSION STATEMENT

We strive to be the preferred, best and profitable dairy company in Kenya. We shall always provide the best quality products, through innovative and cost-effective business practices, and mutually beneficial partnership with our suppliers and employees, thereby delighting our customers, while caring for the communities and the environment wherever we operate.

BACKGROUND

New Kenya Co-operative Creameries Ltd was registered on 24th of June 2003 as a co-operative society and later registered as a state corporation as part of the country's economic recovery strategy. This was done in recognition of the fact that New KCC with its installed capacity of 1.2 Million litres per day and through its countrywide network of 11 factories and 11 cooling plants serve as an instrument of dairy farmers empowerment.

NEW COOLING FACILITIES

COOLING PLANTS

It is for this reason therefore, that New KCC, immediately embarked on re-opening its previously closed facilities. We are happy to report that all the eleven cooling plants are operational for convenience of the farmers. These includes Kapsabet, Molo, Eldama-ravine, Runyenjes, Githumu, Ainabkoi, Lessos, Kangema, Iten, Nanyuki and Kilgoris.

FACTORIES

Eight of the eleven factories are already operational. These include Nairobi cheese, Dandora, Sotik, Kiganjo, Kitale, Nakuru, Nyahururu and recently Miritini. A further two factories, Naivasha and Eldoret operates as receptions for farmers milk. However, Sosiani factory in Eldoret has not reopened as it requires substantial capital investment for rehabilitation. It is this that has enabled New KCC re-introduce all the products that were once household names in Kenya and the region. We are also in the process of re-launching our products in Tanzania, Uganda and beyond.

PRODUCT RANGE

- New Kenya Co-operative Creameries has introduced full range of premium milk and milk products. The product range has been carefully selected to meet the tastes and preferences of consumers in all market segments.
- Further there are plans to introduce other products in line with changing market demands and our marketing strategies.
- All our products are of guaranteed quality and taste, perfected over time and are made to match the highest standards.

FARMER SUPPORT

- In support of farmers, New KCC has employed competent and efficient field services officers whose main task is to serve the farmer by ensuring that they receive quality services at all times.
- We undertake to receive all good quality milk delivered to us from farmers throughout the year.
- Above all, we promise to make prompt monthly payments at the most competitive prices for all the milk received from dairy farmers.

WE OFFER INPUT TO FARMERS ON CREDIT AS LISTED BELOW:

1. Dairy feeds

New KCC has embarked on a dairy feeds programme. These products are supplied at a fair price and the cost is deducted from the dairy farmers proceeds at the end of the month.

2. AI services

In order to improve the quality of the dairy breeds and increase productivity, New KCC in conjunction with various renown service providers extends artificial insemination services at the farm level upon request on credit.

3. Veterinary services

The company in conjuction with various providers of veterinary services offers the above services on credit at a fair price to the farmer.

4. Detergent

We have developed high quality and effective liquid detergent which is availed to our farmers at a reasonable price to help in maintaining proper hygiene while milking and also for cleaning the milking equipment.

Employees

- New KCC recognizes that a critical element of its recovery process is its employees. As such the company has undertaken a series of actions to optimize this area.

Recruitment and selection

The company is committed to both attracting the best staff and retaining them in those positions. To ensure that the right staff are placed in correct positions, at the right time an elaborate recruitment, selection and placement policy has been put in place. This has seen the company attract very high calibre employees who are making a positive impact in the organization.

Capacity building

The company is developing a training programme that will ensure that the staff at all levels of the organization continue to sharpen their skills in order to remain relevant and competitive, in this highly dynamic market. To date, several heads of departments have attended a well structured course on management development. There are plans to ensure that all managers attend such courses. Meanwhile, periodic in-house training is taking place especially in sales and marketing. The company intends to hold a "culture change training" for the entire organization aimed at building team work in the organization, communicating the company's expectations, mission and vision to all the employees.

Improvement on the terms of employment

As new staff continue to join the organization, the terms of employment is being reviewed with a view to harmonizing our terms with the rest of the market. This will however, depend on company's performance.

Performance related renumeration

The company has undertaken to define the key result areas for each department and each employee. These will then be used to appraise the performance of each function.

Our commitment

- We are committed to developing the dairy industry in Kenya to be the preferred and profitable dairy company of international standing.

P N GAITARA
GENERAL MANAGER (C.E.O)

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
REPORT OF THE DIRECTORS
FOR THE EIGHTEEN MONTHS PERIOD ENDED 31 DECEMBER 2004

The directors submit their report and the audited financial statements for the 18 months period ended December 31, 2004 which show the state of the company's affairs.

1. PRINCIPAL ACTIVITY

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

2. OPERATIONS AND INCORPORATION

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

3. RESULTS

The results for the period are set out on Page 15.

4. DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the period ended 31 December 2004.

5. DIRECTORS

The directors who served during the period and to the date of this report were:-

Matu Wamae	- Chairman - Appointed on January 1, 2005, appointed director on 26 June 2005
David Namu	- Chairman - Appointed on 26 June 2003, Retired on 31 December 2004
Prudenzio N. Gaitara	- General Manager - Appointed on 24 June 2003
Joseph Kinyua	- Appointed on January 1, 2005
Eng. David Stower	- Appointed on January 1, 2005
Mburu Wanyoike	- Appointed on June 26, 2003, Retired on December 31, 2004
David Mogere	- Appointed on June 26, 2003, Reappointed on January 1, 2005
Joel Enane	- Appointed on June 26, 2003, Retired on December 31, 2004
James Leitich	- Appointed on June 26, 2003, Retired on December 31, 2004
Joseph Keriri	- Appointed on June 26, 2003, Retired on December 31, 2004
Reuben Chesire	- Appointed on June 26, 2003, Retired on February 4, 2004
Daniel Mule	- Appointed on June 26, 2003, Retired on December 31, 2004
Naphtali Mureithi	- Appointed on June 26, 2003, Retired on February 4, 2004
Amb. P. Mathanjuki	- Appointed on January 15, 2004, Retired on December 31, 2004
Humphrey Mwangi	- Appointed on June 26, 2003, Retired on January 15, 2004
Wilson Kipsang Kipkazi	- Appointed on December 15, 2003, Retired on December 31, 2004
Mathias Ochieng' Were	- Appointed on February 4, 2004, Retired on December 31, 2004
Fredrick Rukwaro Nderitu	- Appointed on May 05, 2004, Retired on December 31, 2004
Timothy Busienei	- Appointed on April 14, 2004, Reappointed January 1, 2005

6. DIRECTORS (Continued)

Solomon S.Boit	-	Appointed on 1 July 2004, Reappointed 01 January 2005
Riziki Musa Spana (Mrs)	-	Appointed on 01 January 2005
Eng. John Musakali	-	Appointed on 01 January 2005
Eng. Alexander K. Ngeno	-	Appointed on 01 January 2005
Elijah Ireri	-	Appointed on 01 January 2005
Charles M. Onchoke	-	(Alternate to Joseph Kinyua), Appointed on 1 January 2005,
Julius Kiptarus	-	(Alternate to Eng. David Stower), Appointed on 26 July 2004, Reappointed on 01 January 2005

7. AUDITORS

Ernst & Young were appointed as auditors during the period and have expressed their willingness to continue in office.

By Order of the Board

MILCAH G. MUGO
SECRETARY

June 27, 2005 2005

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS
FOR THE EIGHTEEN MONTHS PERIOD ENDED 31 DECEMBER 2004

The Kenyan Companies Act requires the directors to prepare financial statements for each financial period, which give a 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 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 requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state 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 company will not remain a going concern for at least the next twelve months from the date of this statement.

....

Director

....

Director

June 27, 2005

....

Date

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF NEW KENYA CO-OPERATIVE CREAMERIES LIMITED.

We have audited the financial statements on pages 15 to 27 for the eighteen months period ended 31 December 2004, and have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purpose of our audit. The financial statements are in agreement with the books of account.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

As stated on page 11 , the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the company and of its operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the company at 31 December 2004 and of the loss and cash flows for the period then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

WITHOUT QUALIFYING OUR OPINION, WE DRAW ATTENTION TO THE FOLLOWING:

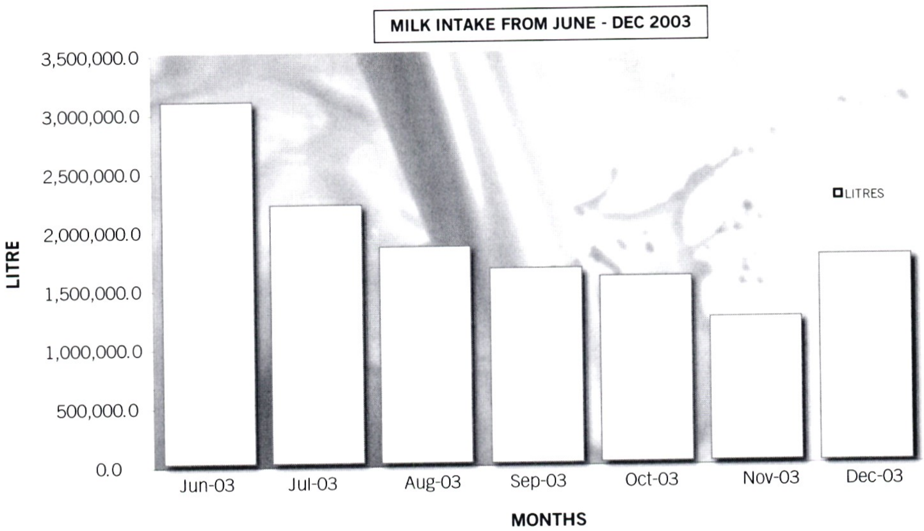
Included in property, plant and equipment are assets with net book values of KShs.411,081,489 and whose cost is KShs 461,469,143 which were acquired from Kenya Co-operative Creameries (2000) Limited. The net realizable values of these assets are estimated by the directors to be significantly higher than their cost. No fair value adjustments have been passed because no independent professional valuation has been undertaken to establish the fair value of these assets.

In addition, included in property, plant and equipment are some assets that were acquired from Kenya Co-operative Creameries (2000) Limited whose ownership is in dispute as there are other parties claiming ownership to the same assets. 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, title documents on some properties are not in the name of the company. The directors are of the opinion that the transfer of these properties to the company will be finalized soon and no loss is expected to arise.

Ernst & Young

Nairobi

June 27, 2005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3,500,000.0
3,000,000.0
2,500,000.0
2,000,000.0
1,500,000.0
1,000,000.0
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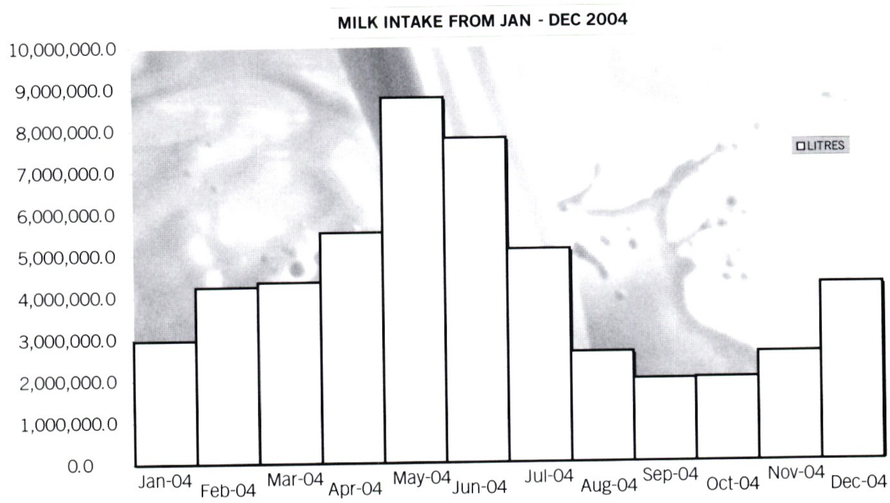
LITRE
LITRES
Jun-03
Jul-03
Aug-03
Sep-03
Oct-03
Nov-03
Dec-03
MONTHS


MILK INTAKE FROM JAN - DEC 2004
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8,000,000.0
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6,000,000.0
5,000,000.0
4,000,000.0
3,000,000.0
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LITRES
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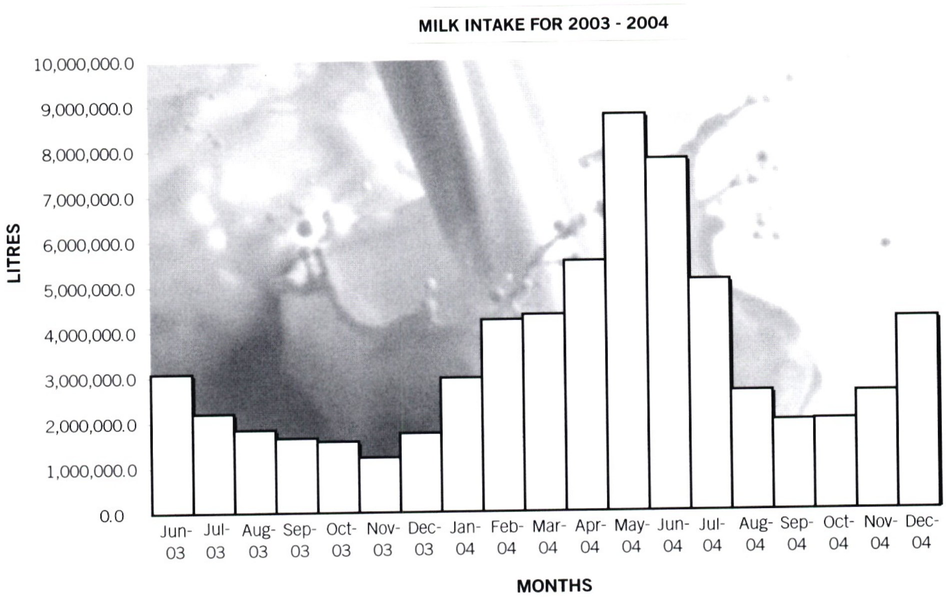
Oct-04
Nov-04
Dec-04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LITRES
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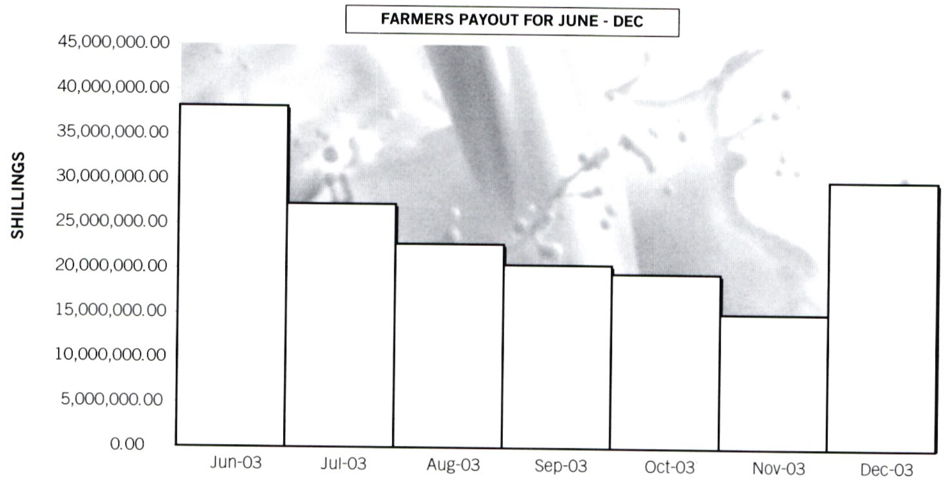
Dec-04
MONTHS



FARMERS PAYOUT FOR JUNE - DEC
SHILLINGS
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40,000,000.00
35,000,000.00
30,000,000.00
25,000,000.00
20,000,000.00
15,000,000.00
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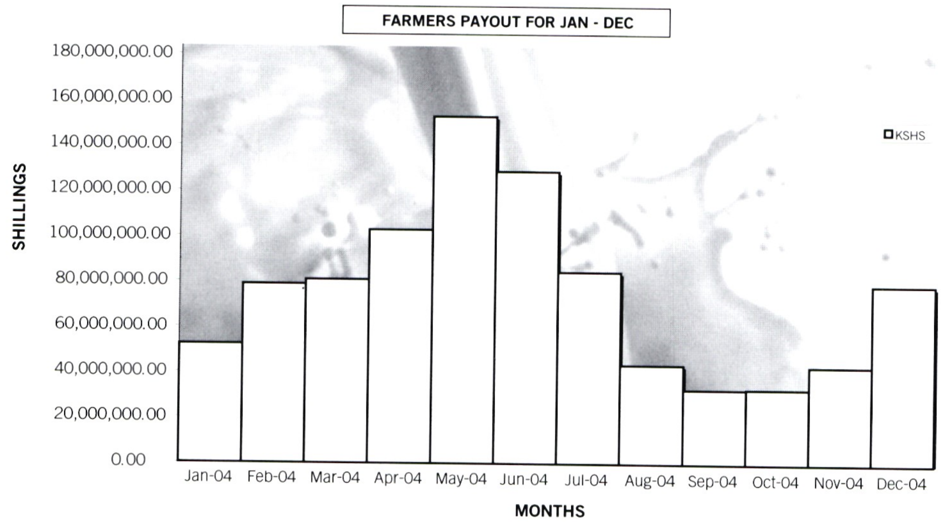
Oct-03
Nov-03
Dec-03



FARMERS PAYOUT FOR JAN - DEC
SHILLINGS
180,000,000.00
160,000,000.00
140,000,000.00
120,000,000.00
100,000,000.00
80,000,000.00
60,000,000.00
40,000,000.00
20,000,000.00
0.00
KSHS
Jan-04
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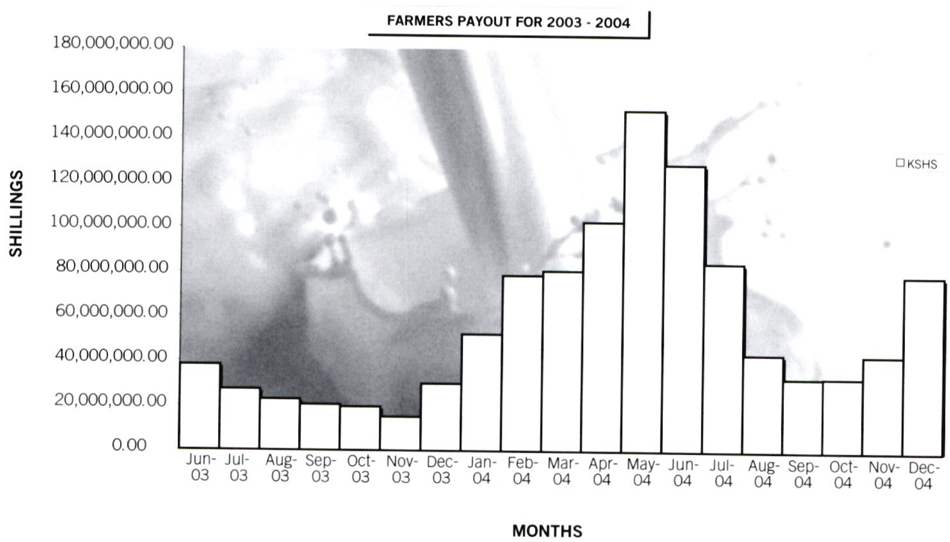
Dec-04
MONTHS



FARMERS PAYOUT FOR 2003 - 2004
SHILLINGS
180,000,000.00
160,000,000.00
140,000,000.00
120,000,000.00
100,000,000.00
80,000,000.00
60,000,000.00
40,000,000.00
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Jan-04
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Mar-04
Apr-04
May-04
Jun-04
Jul-04
Aug-04
Sep-04
Oct-04
Nov-04
Dec-04
MONTHS

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2004

	Note	2004 KShs
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	2	499,462,594
Prepaid leases on land	3	39,035,202
		538,497,796
CURRENT ASSETS		
Stocks	4	201,066,869
Debtors and prepayments	5	107,052,957
Cash and cash equivalents	6	52,008,564
		360,128,390
TOTAL ASSETS		
		898,626,186
SHAREHOLDERS' FUNDS AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	7	20
Contributions pending allotment	8	547,028,850
Accumulated losses		(9,132,125)
		537,896,745
NON-CURRENT LIABILITIES		
Term loan	9	20,644,783
CURRENT LIABILITIES		
Creditors and accruals	10	226,025,443
Related party balances	11	102,951,899
Current portion of term loan	9	10,199,533
Deferred tax	12	907,783
		340,084,658
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		898,626,186

These financial statements were approved by the Board of Directors on 27 June 2005 and were signed on its behalf by:

....)

....) Directors

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE EIGHTEEN MONTHS PERIOD ENDED 31 DECEMBER 2004

	Note	2004 (18 months) KShs
SALES	13	2,490,735,002
COST OF SALES	14	1,743,141,314
GROSS PROFIT		747,593,688
OTHER INCOME	15	18,591,112
		766,184,800
EXPENSES		
Administration and establishment	16	436,490,033
Selling and distribution	17	261,414,881
Depreciation		60,317,358
Amortisation of leasehold land		1,173,190
		759,395,462
PROFIT FROM CONTINUING OPERATING ACTIVITIES		6,789,338
FINANCE COSTS	18	(15,013,680)
LOSS BEFORE TAXATION	19	(8,224,342)
TAXATION	12	(907,783)
LOSS FOR THE PERIOD		(9,132,125)
LOSS PER SHARE	20	(4,566,063)

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE EIGHTEEN MONTHS PERIOD ENDED 31 DECEMBER 2004

	Share capital KShs	Contributions pending allotment KShs	Accumulated losses KShs	Total KShs
Issue of capital	20	-	-	20
Contribution during the period	-	547,028,850	-	547,028,850
Loss for the period	-	-	(9,132,125)	(9,132,125)
At 31 December 2004	20	547,028,850	(9,132,125)	537,896,725

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
CASH FLOW STATEMENT
FOR THE EIGHTEEN MONTHS PERIOD ENDED 31 DECEMBER 2004

	Note	2004 KShs
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation		(8,224,342)
Adjustments for:-		
Depreciation		60,317,358
Amortisation of leasehold land		1,173,190
Operating profit before working capital changes		53,266,206
Stocks		(201,066,869)
Debtors and prepayments		(107,052,957)
Creditors and accruals		226,025,443
Related party balances		102,951,899
Cash generated from operations		74,123,722
CASH FLOWS TO/FROM INVESTING ACTIVITIES		
Acquisition from Kenya Cooperative Creameries (2000) Limited		(461,469,143)
Other purchases of property, plant and equipment		(101,510,809)
Purchase of leasehold land		(40,208,392)
Proceeds from disposal of property and equipment		3,200,000
Net cash flows to investing activities		(599,988,344)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of share capital		20
Term loan		30,844,316
Capital contributions pending allotment		547,028,850
Net cash flows from financing activities		577,873,186
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	6	52,008,564

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 comprise standards and interpretations approved by IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by IASC that remain in effect.

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

(b) Revenue Recognition

Sales are recognised upon the delivery of the products and customer acceptance, net of value added taxes and discounts. Other income is recognised on accruals basis.

(c) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost, less accumulated depreciation.

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 annual depreciation rates in use are:-

Buildings	-	5%
Motor vehicles	-	25%
Industrial plant and machinery	-	12.5%
Office equipment	-	12.5%
Office furniture and 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

Leases 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 amortised in the profit and loss account on a straight line basis over the lease period.

(e) Stocks

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with 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 the profit and loss account in the period to which they relate.

(h) Employee Entitlement

Employee entitlement to gratuity and long service awards are recognised 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 entitlement at the balance sheet date is recognised 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 recognised 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 utilised.

(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.

2. PROPERTY, PLANT & EQUIPMENT

	Freehold land, buildings, and railway slidings Kshs	Motor vehicles Kshs	Industrial plant and machinery Kshs	Furniture and fittings Kshs	Office equipment Kshs	Cans and crates Kshs	Loose tools Kshs	Computers and accesories Kshs	Total Kshs
COST									
Acquisition from KCC (2000) Limited	358,477,611	24,227,011	71,840,263	1,360,645	4,508,134	821,099	234,380	-	461,469,143
Other additions	14,809,118	12,703,650	58,649,392	120,722	1,194,770	9,204,321	96,667	4,732,169	101,510,809
Disposals	-	-	(3,200,000)	-	-	-	-	-	(3,200,000)
At 31 December 2004	373,286,729	36,930,661	127,289,655	1,481,367	5,702,904	10,025,420	331,047	4,732,169	559,779,952
DEPRECIATION									
Charge for the period	27,767,809	10,090,004	19,202,277	266,594	949,634	1,475,800	45,194	520,046	60,317,358
At 31 December 2004	27,767,809	10,090,004	19,202,277	266,594	949,634	1,475,800	45,194	520,046	60,317,358
NET BOOK VALUE									
At 31 December2004	345,518,920	26,840,657	108,087,378	1,214,773	4,753,270	8,549,620	285,853	4,212,123	499,462,594

Included in property, plant and equipment are some assets that were acquired from Kenya Co-operative Creameries (2000) Limited whose ownership is in dispute as there are other parties claiming ownership to the same assets. 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, title documents on some properties are not in the name of the company. The directors are of the opinion that the transfer of these properties to the company will be finalized soon and no loss is expected to arise.

3. PREPAID LEASES ON LAND

	2004 KShs
COST	
Acquisition from KCC (2000) Limited on 23 June 2003	40,208,392
AMORTISATION	
Charge for the period	1,173,190
NET BOOK AMOUNT	
AT 31 December	39,035,202

4. STOCKS

Bulk and produce stocks	49,092,197
Material stocks	84,212,262
Engineering stocks	67,762,410
	201,066,869

5. DEBTORS AND PREPAYMENTS

Trade debtors	74,686,985
Receipts in suspense	(6,134,251)
	68,552,734
Prepayments	29,075,587
Other debtors	6,866,236
	104,494,557

Receipts in suspense of KShs 6,134,251 reflected above, relates to unexplained credit entries appearing in the company's bank statements that could not be allocated to particular debtors.

6. CASH AND CASH EQUIVALENTS

Bank and cash balances	45,372,308
Bank deposits	6,636,256
	52,008,564

7. SHARE CAPITAL

Authorised:-	
10,000 ordinary shares of KShs.10 each	100,000
Issued and fully paid:-	
2 ordinary shares of KShs.10 each	20

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE EIGHTEEN MONTHS PERIOD ENDED 31 DECEMBER 2004

8. CONTRIBUTIONS PENDING ALLOTMENT

Contributions pending allotment relates to payment by the Government of Kenya, the principal shareholder, towards the acquisition of assets and liabilities of KCC (2000) Limited.

9. TERM LOAN

	2004 KShs
Co-operative Bank of Kenya	4,722,741
Tetra Pak	26,121,575
	30,844,316
Less: Current portion	(10,199,533)
Long term portion	20,644,783

The loan from Co-operative Bank of Kenya Limited is for a period of three years and attracts interest at the rate of 3% above the Co-operative Bank of Kenya base lending rate. The loan was for the purchase of milk machine and a company car.

The loan from Tetra Pak is repayable over a period of 48 months with effect from 1October 2003. It attracts interest at a rate of 10% per annum and the purpose was for the purchase of equipment from Tetra Pak Limited.

10.CREDITORS AND ACCRUALS

	2004 KShs
Trade creditors	96,686,302
Dairy farmers	78,927,763
Other creditors & accruals	50,411,378
	226,025,443

11. RELATED PARTY BALANCES

Due to the Government of Kenya	102,951,899

NKCC Limited is wholly owned by the Government of Kenya. The amount owed to the Government of Kenya relates to the balance of advance payments made to the company for the supply of powdered milk to be distributed under the Famine Relief Programme.

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE EIGHTEEN MONTHS PERIOD ENDED 31 DECEMBER 2004

12. TAXATION

BALANCE SHEET	2004 (18 months) KShs
DEFERRED TAXATION	
The net deferred tax is attributable to the following items:	
Excess of depreciation over tax allowances	137,822,047
Provisions	(7,768,566)
Tax losses carried forward	(129,145,698)
	907,783
PROFIT AND LOSS	
Deferred tax	907,783

The tax charge differs from the theoretical amount that would arise using the using basic tax rates as follows:

Accounting loss before taxation	(8,224,342)
Tax calculated at 30%	(2,467,303)
Tax effects on expenses not deductible for tax	3,375,086
	907,783

13. SALES

Fresh milk	1,534,126,576
Ultra Heat Treated(UHT) milk	487,389,268
Powder milk	196,337,779
Mala milk	130,274,312
Other dairy products	142,607,067
	2,490,735,002

14. COST OF SALES

Opening stocks acquired from KCC (2000) Limited	62,764,975
Purchases	1,813,680,798
Closing stocks	133,304,459
	1,743,141,314

15. OTHER INCOME

Rent income	12,032,337
Insurance compensation	3,487,811
Other miscellaneous income	3,070,964
	18,591,112

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE EIGHTEEN MONTHS PERIOD ENDED 31 DECEMBER 2004

16. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	2004 KShs (18 months)
	KShs
Staff costs	200,117,416
Auditors' remuneration	1,200,000
Legal & other professional services	3,500,238
Repairs and maintenance	75,761,816
Insurance	7,641,927
Stationery & printing	7,745,373
Laboratory chemicals	2,635,328
Communication	10,579,952
Security	24,851,896
Electricity	63,628,886
Water & sewerage	22,324,302
Underbankings/ cash losses	4,268,940
Other office expenses	12,233,959
	436,490,033

17. SELLING AND DISTRIBUTION EXPENSES

Advertising and promotion	13,145,600
Distribution & commission	58,720,310
Provision for bad debts	13,991,048
Travelling	23,868,526
Motor vehicle running expenses	73,405,871
Discounts allowed	4,962,678
Transport	73,320,848
	261,414,881

18. FINANCE COSTS

Bank charges & commission	10,541,303
Interest expense	1,925,426
Machinery loan interest	2,546,951
	15,013,680

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 31 DECEMBER 2004

19. LOSS BEFORE TAXATION

		2004 (18 months) KShs
Loss before taxation is stated after charging:		
Depreciation charge		60,317,358
Amortisation of leasehold land		1,173,190
Auditors' remuneration		1,200,000
Interest expense		1,925,426
Directors' emoluments	- As directors	19,026,836
	- As executives	5,800,000

20. LOSS PER SHARE

The loss per share is calculated on the loss after tax of KShs.9,132,125 and on the number of ordinary shares in issue at the balance sheet date.

21. BUSINESS ACQUISITION

The company acquired certain assets and assumed certain liabilities from Kenya Co-operative Creameries (2000) Limited at an agreed consideration of KShs 547,028,870. The consideration paid was allocated as follows:

	KShs
Property, plant and equipment	461,469,143
Prepaid leases on land	40,208,392
Debtors and prepayments	17,632,097
Engineering stocks	67,762,410
Material and produce stock	62,764,974
Creditors & accruals	(102,808,176)
	547,028,870

22. BANK FACILITIES

The company has been granted the following facilities by Co-operative Bank of Kenya Limited
i) Term loan of KShs.13.9 million for the purchase of milk machine and a company car.
ii) Overdraft facility of KShs.30 million for working capital requirements. The overdraft facility attracts interest at 3% above the Co-operative Bank of Kenya base lending rate. The facility had not been utilized by year end.

The facilities are secured by the following:
i) An all asset debenture charge in the amount of KShs.63,912,943.50 over both the company's fixed and floating assets.
ii) Lien over fixed deposits covering the bank guarantees and letters of credit issued.
iii) Letters of set-off in the bank's favour.

23. POST BALANCE SHEET REVIEW

As at the time of concluding the audit, the company had carried out internal investigations and established that the company had lost cash amounting KShs 8,958,068. Of this amount KShs 4,268,940 related to the 18 months period ended 31 December 2004 and the balance of KShs 4,689,128 relates to the period after the balance sheet date. The company has launched claims with the insurance companies in a bid to recover the money and has also strengthened internal controls to prevent similar occurrence in future.

24. EMPLOYEES

The average number of employees for the company during the period was 676.

25. CURRENCY

The financial statements are presented in Kenya Shillings (KShs.)

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
COMPANY INFORMATION
FOR THE EIGHTEEN MONTHS PERIOD ENDED 31 DECEMBER 2004

PRINCIPAL PLACE OF BUSINESS
Creamery House
Dakar Road, Off Enterprise Road
Industrial Area
P. O. Box 30131
00100 NAIROBI

REGISTERED OFFICE
L.R No. 209/6849
Dakar Road, Off Enterprise Road
Industrial Area
P. O. Box 30131
00100 NAIROBI

BANKERS
Co-operative Bank of Kenya Limited
Co-operative House Branch
Haille Selassie Avenue
P. O. Box 67881
00200 NAIROBI

Kenya Commercial Bank Limited
Industrial Area Branch
P. O. Box 18031
00500 NAIROBI

Standard Chartered Bank
Industrial Area Branch
P.O. Box 18081
00500 NAIROBI

SOLICITORS
Muriu Mungai & Company Advocates
Britak Centre, Upperhill
Ragati/Mara Road
P.O. Box 75362
00200 NAIROBI

SECRETARY
Milcah G. Mugo
Creamery House
Dakar Road, Off Enterprise Road
Industrial Area
P. O. Box 30131
00100 NAIROBI

AUDITORS
Ernst & Young
Kenya-Re Towers, Upperhill
Off Ragati Road
P.O Box 44286
00100 NAIROBI

*From left: **Standing:** P. Mutisya (Financial Controller), W. Gumbo (Inspectorate of State Corporations), C. Onchoke (Alternate Director to PS Treasury), D. Mogere (Director), T. Busienei (Director), J. Kiptarus (Alternate Director to PS Livestock & Fisheries Development), J. Musakali (Director), E. Ireri (Director). **Sitting:** P. N Gaitara (General Manager), S. Boit (Director), Matu Wamae (Chairman), David Namu (Former Chairman), Mrs. R. Spana (Director)*

PHOTO GALORE

1. Tree planting led by Hon. Munyao, Minister of Livestock & Fisheries Development, to mark the dairy month. On the left is New KCC Chairman, Matu Wamae, and on the right looking on is Mr. Reuben Chesire (chairman KDB) at the Dandora factory.
2. Corporate social responsibility: New KCC staff donates some of the company products to Nyumba ya Wazee as part of its corporate social responsibility.
3. Hon. Peter Ndwiga opens New KCC Nanyuki Plant.
4. New KCC unveils its new look tent during the occasion to close dairy month. New KCC staff present products to Hon. Munyao, Minister of Livestock & Fisheries Development, and Mr. Ruben Chesire, Chairman KDB (At the Splash, Nairobi)
5. Minister for Co-operatives Development & Marketing, Hon. Peter Ndwiga among other dignitaries served at Uhuru park during the occasion to mark Ushirika day.
6. The Marketing Manager Mrs. S. Agutu presents New KCC products to Deputy PC Mrs. Philamena Koech on the occasion to mark World Environment day.
7. President Kibaki being explained quality control process by New KCC General Manager, Mr. P. Gaitara. Looking on is Hon. Munyao, next to the President is New KCC, Chairman, Matu Wamae, Lucy Kibaki and Peter Ndwiga. Minister for Co-operative Development and Marketing.
8. Dairy day – a colourful occasion

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