

**ANNUAL REPORT &
FINANCIAL STATEMENTS
2011/2012**

PARLIAMENT
OF KENYA
LIBRARY



**NEW
KENYA
CO-OPERATIVE
CREAMERIES LTD**

Life's goodness everyday!

FREE YOUR BODY FREE YOUR MIND



GOLD CROWN
Milk

Gold Crown Fat Free long life milk with only 0.25% fat.





**NEW
KENYA
CO-OPERATIVE
CREAMERIES LTD**

Annual Report

&

Financial Statements

2011/2012

Life's goodness everyday!

Superfine GHEE



Life's goodness everyday!

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED.

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KCC FINEST BUTTER

A world class product of Kenya's richest pasture

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED.

COMPANY INFORMATION.

PRINCIPAL PLACE OF BUSINESS

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

EQUITY BANK LTD
KENPIPE BRANCH
P.O.BOX 75104-00200
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
CO-OPERATIVE HOUSE BRANCH
HAILLE SELASSIE AVENUE
P.O. BOX 67881- 00200
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

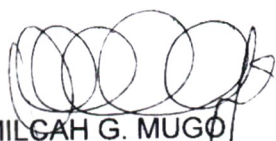
MILCAH MUGO
CREAMERY HOUSE
DAKAR ROAD, OFF ENTERPRISE ROAD
P.O. BOX 30131-00100
NAIROBI

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

AUDITORS

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

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



MILCAH G. MUGO
COMPANY SECRETARY

Board Members



Hon. Matu Wamae, EBS
Chairman



Dr. Kipkirui Arap Lang'at, OGW
Managing Director



Mrs. RizikiSpana
Director



Mr. William Wahome
Director



Mr. David Mogere
Director



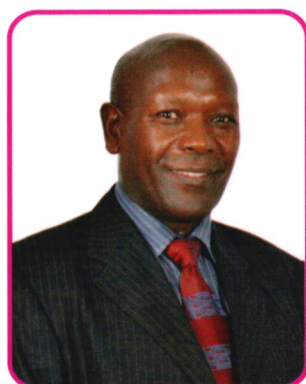
Mrs. Mary Munene
Director



Ms. Milcah Mugo
Chief Manager, Legal &
Company Secretary



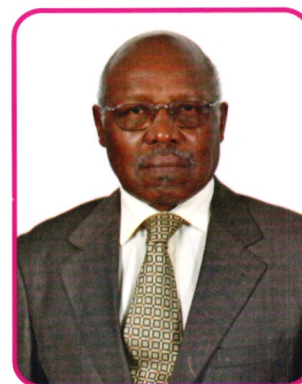
Mr. Julius Kiptarus
Alternate Director
Ministry of Livestock
Development



Mr. Seno Nyakenyanya
Permanent Secretary,
Ministry of Co-operative
Development &
Marketing



Mrs. Beatrice Gathirwa
Alternate Director
Ministry of Finance



Dr. Samson Muttai
Director

Chairman's Statement



Hon. Matu Wamae, EBS

The company remains committed to supporting dairy farmers in Kenya to ensure their successful engagement in the continued growth of the Dairy Industry.

Despite the drastic decline in milk intake owing mainly to the dry season experienced for the better part of the year, the company posted a pre-tax profit of Ksh 302 million for the financial year ended June 30th 2012.

Our ability to consistently report positive results despite the challenges, underscores the Company's resilience and ability to adapt in spite of prevailing circumstances, and we expect even better results in the coming financial year.

Staying Ahead

The company has continued to make significant strides in its efforts to boost milk intake, and has on average received and processed 350,000 liters of milk per day.

The purchase and installation of twenty nine (29) chilling centers with a holding capacity of 205,000 liters in strategic areas has continued to prove a success. However the vastness of the milk collection areas continues to present a challenge in ensuring

that we are able to adequately serve these areas, but we are actively engaging our stakeholders to seek a sustainable way forward to bridge this gap.

Already, the company has spent over Ksh 62 million in procuring an additional 20 coolers with an installed capacity of 110,000 liters and we will soon embark on the process of installing and commission the coolers for use in the already pre-identified areas.

Since our registration as a State Corporation in 2003, our re-emergence in the market has seen to the stabilizing of an increasingly liberalized dairy sector, especially with regard to better pricing to ensure dairy farmers are reaping maximum benefits for their produce. We continue to invest in our continued close partnership with dairy farmers, to enable them produce and market quality milk.

In the 2011/2012 Financial Year, New KCC received a combined total of 103,174, 958 liters of raw milk. The company paid an average of Ksh 29.95 per liter of milk, which translated into a total milk pay out of Ksh 3,090,320,949 which is inclusive of all bonuses paid out to farmers for bulking, chilling and transport rebates.

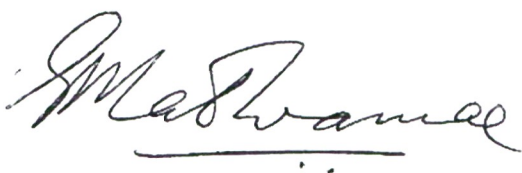
Looking Ahead

The Company's continued growth and success in the years to come, calls upon us all as stakeholders to continue working together in close partnership to write the next chapter of the New KCC success story.

The Company, recognizing the important role its workforce plays to the continued success of the Company has made significant investments in its human resource. The Company has engaged in numerous workshops and seminars including but not limited to sensitization training on gender and disability mainstreaming, Integrity as well Best Practice in Strategic Procurement and Compliances among many others to reflect the diverse needs of our workforce.

On behalf of the Board of Directors and Management of New KCC, I would like to thank our farmers, customers and well wishers for their continued partnership and support.

I would also like to acknowledge the guidance and leadership we continue to receive from the relevant government ministries, and most especially the Ministry of Co-operative Development and Marketing.



Hon. Matu Wamae, EBS
Chairman

Managing Director's Statement



Dr. Kipkirui Arap Lang'at, OGW

In business, the competition will bite you if you keep running; if you stand still, they will swallow you..... Semon Knudsen

Background

The 2011/2012 Financial Year was a year of mixed blessings, marked by a wet period in the early part of the year with favourable rains that saw an increased in raw milk intake which enabled the Company to maintain normal operations while building up its reserves. This, coupled with other strategic measures put in place, saw us through the dry period experienced in the later part of the year, as we remained focused on meeting our customers' demands and remaining competitive through competitive pricing and provision of quality milk and milk products to its diverse customer base.

I remain proud of the continued support from all our stakeholders, both within and without the company, whose cooperation and commitment to the company has proved invaluable to our continued success.

Staying Ahead

The Company cannot underestimate the effects of the dry period on players in the dairy sector, but recognizes the important role it played in shoring up the industry when it

faced a drastic decline in raw milk intake. As the only producer of dry milk powder in the country, the Company was able to reach into its strategic dry milk powder reserves to supplement the declining intake, thereby meeting its orders as well those of other players in the dairy sector.

The Company posted a pre-tax profit of Ksh 302,354,492 for the 2011/2012 Financial Year, as its sales turn over grew up from Ksh 7,385,980,381 to Ksh7,626,675,193 for the period ending June 30th 2012.

Our continued focus on supporting our dairy farmers has seen our milk supply grow steadily, and by end of the 2011/2012 Financial Year, the Company had received and processed a total of 103 million liters of quality raw milk. Our raw milk producer prices which averaged at Ksh 29 per liter of milk, up from Ksh 25 per liter paid out during the same period in the previous financial year were among the best and highest prices on offer in the market. Our total payout which stood at Ksh 3,090, 320,949 marked the highest payout yet in the Company's history.

We continue to invest in quality products for the benefit of our customers, and have also introduced a customer support desk to enhance customer interaction, with plans already underway to enhance the process using social media platforms such as Twitter and Facebook through our soon to be re-launched website.

Gratitude

I am grateful for the support that we continue to receive from the relevant government Ministries, Board of Directors, Management and Staff of New KCC whose dedication and commitment were instrumental in the Company's positive showing.

There remains much to be done, but I am hopeful that together, nothing is beyond reach.

Thank you.



**Dr. Kipkirui Arap Lang'at, OGW
MANAGING DIRECTOR**

Management Team



Dr. Kipkirui Arap Lang'at, OGW
Managing Director



Ms. Milcah Mugo
Chief Manager, Legal &
Company Secretary



Mr. Kiboi
Head of Engineering



Mr. Patrick Mutisya
Chief Manager, Finance



Mr. Geoffrey Bartenge
Chief Manager,
Factory Operations



Ms. Magdalene Muthoka
Chief Manager, Human Resource
& Administration



Mr. Benedict Ngila
Head of National Sales



Mr. David Malinga
Head of Logistics & Inventory



Mr. Peter Ombati
Legal Officer

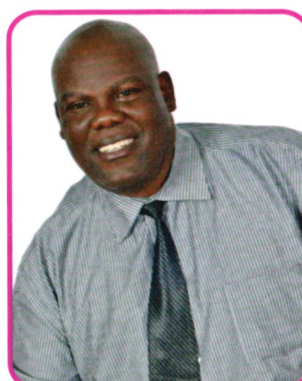
Management Team Cont.



Mr. Dominic Menjo
Head of Raw Milk &
Extension Services



Mr. Jamleck Mwangi
Head of Procurement



Mr. Tom Opapa
Export Sales Manager



Martin Karingithi
Chief Manager
Sales & Marketing.



Mr. James Butuk
Security Manager



Ms. Emillie Mugeni
Head of Quality
Assurance



Ms. Gladys Some-Mwangi
Corporate Affairs
Manager



Samuel Ichura -
Chief Manager,
Internal Auditor
Risk Compliance



Ms. Lilian Were
Research &
Development Manager



Mr. Kiroti
Finance Manager



Ms. Damaris Chirchir
Head of Production



Mr. Sam Onyango
Head of ICT

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED.

DIRECTORS REPORT

The directors submit their report and the audited financial statements for the year ended 30 June 2012 which show the state of the company 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 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 6

4. DIVIDENDS

The directors do not recommend the payment of dividend in respect of the year ended 30 June 2012.

5. DIRECTORS

The Directors who served during the period 1st July 2011 - 30th June 2012 and to the date of this report were:-

Matu Wamae	Chairman Re-appointed 1st January 2011
Dr. Kipkirui Langat	Managing Director – Appointed on 8th March 2011
Joseph Kinyua	Reappointed 1 st January 2011
<i>Mrs. Beatrice Gathirwa</i>	<i>(Alternate to PS – Treasury)</i>
Seno Nyakenyanya	Reappointed 1 st January 2011
<i>E. M. Irungu</i>	<i>(Alternate to PS-Cooperative)</i>
Kenneth Lusaka	Reappointed 1 st January 2011
<i>Julius Kiptarus</i>	<i>(Alternate to PS-Livestock)</i>
David Mogere	Reappointed on 1 st January 2011
Riziki Musa Spana	Reappointed on 1 st January 2011
Sam K.Kottutt	Appointed on 1 st July 2011. Revoked on 13/07/2011.
Mary .M.W. Munene	Appointed on 1 st July 2011
William.W. Kabera	Appointed on 1 st July 2011
Joseph Kiplagat Kogos	Appointed on 17 th October 2011(Deceased)
Lawrence Awori	Appointed on 17 th July 2009.

By Order of the Board



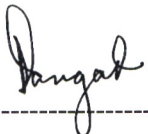
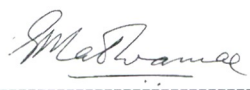
MILCAH G. MUGO
COMPANY SECRETARY

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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.

<u>Name</u>	<u>Signature</u>	<u>Date</u>
DR. KIPKIRUI ARAP LANG'AT	 -----	14/11/2012 -----
E. MATU WAMAE	 -----	14/11/2012 -----

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

**REPORT OF
THE
AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF
NEW KENYA CO-OPERATIVE
CREAMERIES LTD FOR THE YEAR
ENDED 30 JUNE 2012**

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: cag@kenao.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 LTD FOR THE YEAR ENDED 30 JUNE 2012

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of New Kenya Co-operative Creameries Ltd set out on pages 5 to 17, which comprise the statement of financial position as at 30 June, 2012, 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 risk 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, the property, plant and equipment balance of Kshs.3,335,881,489 as at 30 June 2012 includes an amount of Kshs.1,906,927,500 representing the value of forty nine (49) parcels of Land and buildings whose title documents were not availed for audit verification.
- ii) The property, plant and equipment figure of Kshs.3,335,881,489 also excludes fifteen (15) parcels of land and buildings which have not been valued.
- iii) 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.
- iv) Ownership documents for forty one (41) motor vehicles of unknown value are held by a law firm as security over a dispute relating to legal fees.

In the circumstances, and in the absence of title deeds, logbooks and other related records, it has not been possible to confirm the ownership status of the respective assets and that the property, plant and equipment balance of Kshs. 3,335,881,489 is fairly stated as at 30 June 2012.

2. Trade Receivables and Prepayments

- i. As previously reported, included in the trade receivables and prepayments balance of Kshs. 1,123,795,741 as at 30 June 2012 are trade debts totalling Kshs.617,901,268 out of which an amount of Kshs.4,948,922 was owed by a firm in respect of goods supplied by the company as at 30 June 2012. Although, the firm was expected to provide the company with a bank guarantee against goods supplied, no such guarantee was made available for audit verification. Instead, the firm disputed the debt, whereupon the matter was referred for arbitration on 16 March 2007. However, and according to information available, this matter had not been resolved as at 30 June 2012.
- ii. The trade receivables and prepayments balance of Kshs.1,123,795,741 also includes staff debts amounting to Kshs.27,430,768, out of which an amount of Kshs.12,000,360 is owed by employees who have left the Company.
- iii. Further, the trade receivables and prepayments balance of Kshs.1,123,795,741 includes refer to drawer cheques amounting to Kshs.23,440,282. Some of which have been outstanding for over one year.

In the circumstances, it has not been possible to confirm the recoverability of trade receivables and prepayments balance of Kshs.1,123,795,741 and that the trade receivables and prepayments balance is fairly stated as at 30 June 2012.

Qualified Opinion

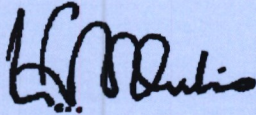
In my opinion, except for the effect of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly in all material respects, the financial position of the Company as at 30 June, 2012, and of its financial performance and its cash flows for the year then 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 Kenya 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;

- 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,
- II The Company's statement of financial position is in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

2 January 2013

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

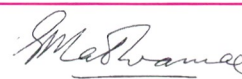
		JUNE 2012	June 2011
	Note	Ksh	Ksh
Sales	20	7,626,675,193	7,385,980,381
Cost of sales	21	(5,817,680,753)	(5,717,789,503)
Gross profit		1,808,994,440	1,668,190,878
Other income	22	13,039,072	15,524,488
Selling Expenses	23	774,585,445	709,502,968
Administrative Expenses	24	579,087,489	487,931,879
Profit from continuing operating activities		468,360,579	486,280,519
Financing costs	25	166,006,087	98,025,211
Profit/Loss before Taxation		302,354,492	388,255,308
Tax credit / (expense)	26	(53,577,794)	104,625,082
Profit/Loss for the period		248,776,698	492,880,390
Profit/Loss per share		4.55	9.01

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

ASSETS	Note	2012	2011
NON-CURRENT ASSETS			
Property, plant and equipment	2	3,335,881,489	3,658,999,486
Prepaid Leases on land	3	851,846,448	868,957,421
Investments	4	6,456,475	6,456,475
		4,194,184,411	4,534,413,382
CURRENT ASSETS			
Inventories	5	861,542,304	1,737,193,759
Trade Receivables and prepayments	6&7	1,123,795,741	985,286,568
Cash and cash equivalents	8	56,171,953	67,103,124
		2,041,509,999	2,789,583,450
TOTAL ASSETS		6,235,694,410	7,323,996,832
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	9	547,028,870	547,028,870
Revenue Reserves	10	1,981,590,470	1,732,813,772
Revaluation Reserves	11	1,855,678,798	2,553,619,700
		4,384,298,138	4,833,462,342
NON-CURRENT LIABILITIES			
Term loan	12(ii)	218,454,366	378,680,407
Deferred tax	13	227,829,223	353,516,687
		446,283,589	732,197,094
CURRENT LIABILITIES			
Bank Overdraft	14	225,001,221	313,209,946
Current portion of term loan	12(i)	190,428,802	207,833,314
Payables and accruals	15&16	840,348,507	1,296,353,993
Related party balances	17	(5,567,502)	(8,826,702)
Gratuity Senior Staff	18	40,814,986	14,945,435
Tax payable	19	114,086,668	(65,178,590)
		1,405,112,683	1,758,337,397
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		6,235,694,410	7,323,996,832



DR.KIPKIRUI.ARAP LANG'AT.OGW
Managing Director



MATU WAMAE
Chairman

STATEMENT OF CASHFLOWS
FOR YEAR ENDED 30TH JUNE 2012

	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	302,354,492	388,255,308
Adjustments for:		
Depreciation	416,887,604	273,746,608
Amortization of leasehold land	17,110,973	12,462,698
Operating profit before working capital changes	736,353,069	674,464,615
Stocks	255,530,865	(112,609,262)
Debtors and prepayments	(138,509,174)	(144,509,396)
Creditors and accruals	(430,135,934)	150,702,209
Related party balances	3,259,200	(212,794,226)
Cash generated from operations	426,498,026	355,253,950
CASH FLOWS TO/FROM INVESTING ACTIVITES		
Purchases of property, plant and equipment	(171,589,918)	(147,829,819)
Property and equipment (Loss)	-	129,039
Net cash flow to investing activities	(171,589,918)	(147,700,780)
CASH FLOWS FROM FINANCING ACTIVITIES		
Term Loan	(177,630,553)	182,631,183
Dividend paid	-	(50,000,000)
Investment	-	(6,456,475)
Net cash flows to investing activities	(177,630,553)	(239,087,658)
NET INCREASE IN CASH AND CASH EQUIVALENT	77,277,555	(31,534,487)
CASH AND CASH EQUIVALENTS AS AT 30.06.2011	(246,106,823)	(214,572,336)
CASH AND CASH EQUIVALENTS AS AT THE END OF THE PERIOD	(168,829,268)	(246,106,823)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012**

	Notes	Share Capital Ksh	Revaluation reserve Ksh	Revenue reserve Ksh	Total Ksh
Year ended 30th June 2010					
At 1 July 2010		547,028,870	1,255,819,721	1,239,933,382	3,042,781,973
Revaluation reserve	(a)	-	1,297,799,979		1,297,799,979
Net surplus/ (deficit) for the year		-		492,880,390	492,880,390
At 30th June 2010		547,028,870	2,553,619,700	1,732,813,772	4,833,462,342
Year ended 30th June 2011					
At 1 July 2011		547,028,870	2,553,619,700	1,732,813,772	4,833,462,342
Revaluation reserve	(a)	-	(697,940,901)		(697,940,901)
Net surplus/ (deficit) for the year		-		248,776,698	248,776,698
At 30th June 2012		547,028,870	1,855,678,798	1,981,590,470	4,384,298,138

NOTE :(a)

The 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.

The charge to the revaluation reserve relates to two entries;

- i) The annual amortization charge of Ksh 77,820,311 for the current year.
- ii) The amount of Ksh 620,120,590 is a one off adjustment of revaluation reserve in the current year, it relates to prior revaluation balance before the current revaluation was undertaken in the financial year 2010/2011.

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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.

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 2012

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.

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS CONT

	Buildings	Machinery \$plant	Equipment	Loose tools	Furniture & fittings	Cans & crates	Autos & trucks	Computers accessories	Freehold land	Capital W.I.P	Total
cost	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh	Ksh
1 st July 2010	1,974,530,625	1,212,355,686	11,597,350	348,085	10,861,943	82,419,528	365,562,844	102,678,611	44,300,000	407,879,660	4,212,534,333
Additions	6,627,335	194,677,517	21,217,455	0	1,934,240	6,530,547	12,592,498	110,626,791	0	(206,376,563)	147,829,820
Revaluations	525,573,464	324,427,207	0	0	(61,790)	0	0	0	105,700,000	0	835,470,239
Disposals							(4,491,071)				(4,491,071)
30th June 2011	2,506,731,424	1,731,460,410	32,814,805	348,085	12,734,393	88,950,075	373,664,271	213,305,402	150,000,000	201,503,097	5,311,511,961
Depreciation											
1 st July 2010	388,549,683	403,017,376	6,171,267	282,345	4,900,188	60,824,279	241,182,584	41,722,055	0	0	1,146,649,777
Charg ^e	69,121,574	161,734,151	2,515,204	43,511	873,376	13,272,837	58,808,205	64,722,652			371,091,511
Revaluation	424,841,111	(282,546,184)			(3,161,708)						139,133,219
Disposals							(4,362,032)				(4,362,032)
30 th June 2011	882,512,368	282,205,344	8,686,471	325,856	2,611,857	74,097,116	295,628,757	106,444,707			1,682,512,475
N.B.V											
30 th June 2011	1,624,219,056	1,449,255,066	24,128,333	22,229	10,122,536	14,852,959	78,035,515	106,860,695		201,503,097	3,658,999,486

Cost	2,506,731,424	1,731,460,410	32,814,805	348,085	12,734,393	88,950,075	373,664,271	213,305,402	150,000,000	201,503,097	5,311,511,962
1st July 2011											
Additions	5,866,170	128,766,258	801,396	36,000	658,386	4,270,408	32,612,315	105,986,355	-	(107,407,369)	171,589,918
Disposals		0				(2,579,301)					(2,579,301)
30th June 2012	2,512,597,594	1,860,226,668	33,616,201	384,085	13,392,779	90,641,182	406,276,586	319,291,757	150,000,000	94,095,728	5,480,522,579
Depreciation											
1st July 2011	882,512,368	282,205,344	8,686,471	325,856	2,611,857	74,097,116	295,628,757	106,444,707	-	-	1,652,512,476
Charge	125,420,278	226,619,150	3,536,401	14,153	1,625,143	10,245,403	43,250,514	84,036,897	-	-	494,707,915
Disposals		0				(2,579,301)					(2,579,301)
30th June 2012	1,007,932,646	508,824,494	12,222,872	340,009	4,237,000	81,763,218	338,879,271	190,481,604	-	-	2,144,641,090
N.B.V											
30th June 2012	1,504,664,948	1,351,402,175	21,393,329	44,076	9,155,779	8,877,963	67,397,315	128,810,153	150,000,000	94,095,728	3,335,881,489

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. 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 2012

3) Prepaid leases on land

	2012	2011
Cost		
1st July 2011	911,089,220	332,450,000
Revaluation	-	578,639,220
Disposals		
30th June 2011	911,089,220	911,089,220
Depreciation		
1st July 2011	42,131,799	29,669,101
Charge	17,110,973	12,462,698
Disposals		
30th June 2011	59,242,772	42,131,799
Net book values		
30th June 2012	851,846,448	868,957,421
1st July 2011	868,957,421	302,780,899
Investments	6,456,475	6,456,475

- 4) New KCC Ltd purchased Uchumi Supermarkets Ltd 767,588 shares at market price of Kshs 8.42 in May 2011. The shares were purchased through Ms. Kingdom Securities (A subsidiary of Ms. Co-operative Bank of Kenya Ltd). The shares transactions are done through Ms. Kingdom Securities Ltd.

Inventories

5) Gen. Engineering Stores Stock	338,463,298	291,130,811
Tetra pak engineering stores	94,391,802	77,189,466
Raw Chilled Milk(Bulk)	18,903,345	24,730,184
Processed & Packed Liquid Milk	170,425,093	242,780,288
Processed & Packed Dairy products	55,770,022	797,425,509
Finished Goods-WIP	3,581,461	58,402,314
Packaging Materials	215,500,419	188,083,739
Furnace oil	20,768,962	23,202,839
Detergents and Other Materials	37,090,294	29,063,279
Provision for Bad/Damaged Stock	(11,360,961)	(9,899,691)
Materials price/Stock Cost variance	-	65,076,727
Price Var-Eng & Tetra pak stores spares	-	31,999,725
Provision for obsolete Eng stores spares	(81,991,431)	(81,991,431)
	861,542,304	1,737,193,759

6. Trade Receivables

Trade	458,785,323	541,230,221
Cash sale control	27,013,665	27,013,665
Staff	26,999,086	27,427,657
Agents/salesmen	185,859,669	150,631,048
Bounced chqs	23,440,282	15,952,643
Export Account	6,085,733	1,874,824
Cheques at Hand	92,977,028	17,648,578
Prepaid Debtors	(48,319,747)	(67,460,068)
Unallocated payments	(13,685,915)	(34,420,561)
Less provision Bad Debts	(141,253,855)	(139,952,862)
	617,901,268	539,945,145

7. Prepayments

Prepayments	-	2,408,560
Insurance Claim	18,558,062	22,919,341
Deposits paid	13,862,505	13,787,657
VAT Withholding Certificate	-	55,414
Vat / Tax Control Account	459,001,968	313,562,527
Prepaid creditors	14,471,938	92,607,922
	505,894,473	445,341,422

6&7-Trade Receivables and Prepayments

1,123,795,741 **985,286,567.52**

8. Cash and Cash Equivalent

Depot cashier Account	4,087,893	
Equity Bank	1,629,848	
KCB industrial area	14,524,291	
STD industrial area	2,913,190	
STD Bank-DOLLAR Account	200,504	696,784
Stanbic Bank	6,225,789	41,742,190
Petty cash control - service	9,509	358,916
Fixed deposits	24,718,873	23,480,787
Petty cash control - production	590,100	493,017
Petty cash control depots	1,271,956	331,431
	56,171,953	67,103,124

9. Share Capital

Authorized:

200,000,000 Ordinary shares of Kshs. 10 each

Issued and fully paid:

54,702,887 Shares of Kshs. 10 each

547,028,870 **547,028,870**

This is the amount paid by the government to Ms KCC 2000 Ltd.

10. Revenue Reserves

Balance as at 1.7.2011	1,732,813,772	1,239,933,382
Current year's profit/(loss)	248,776,698	492,880,390
	1,981,590,470	1,732,813,772

11. Revaluation Reserves

Balance as at 01.07.2011	2,553,619,700	1,255,819,721
Revaluation adjustment in current yr.	(620,120,590)	1,534,278,100
Revaluation amortization during the yr.	(77,820,311)	(236,478,121)
	1,855,678,798	2,553,619,700

12. Term Loan

(i) Current Portion

Loan- Co-op Loan 3- 0168305790803	-	4,333,314
Long Term Loan - Co-op Bank	48,583,332	53,000,000
Loan - Stanbic Asset finance facility	65,845,470	90,000,000
Loan - Co-op Asset finance facility	76,000,000	49,500,000
Loan - GOK (Eldoret & Sosiani Rehab)	-	11,000,000
	190,428,802	207,833,314

(ii) Long term Portion

Long Term Loan - Co-op Bank	-	48,583,331
Loan - Stanbic Asset finance facility	-	68,287,134
Loan - Co-op Asset finance facility	218,454,366	261,809,941
	218,454,366	378,680,406

Total Term Loan

408,883,168 **586,513,721**

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS CONT.
FOR THE YEAR ENDED 30 JUNE 2012

13. Deferred Tax

Balance as at 1st -July 2011	353,516,687	497,160,313
Deferred tax movement current year	(125,687,464)	(143,643,626)

227,829,223 **353,516,687**

14. Bank Overdraft

Co-operative Bank	225,001,221	307,993,670
Equity Bank		975,034
KCB		4,233,351
Stanchart (KES)		7,891

225,001,221 **313,209,946**

15. Payables

Trade payables	379,638,515	705,256,909.44
Milk payables	259,908,763	293,330,033.72

639,547,278 **998,586,943.16**

16. Accruals

Payroll Control A/C	4,886,401	2,926,049
Withholding Vat Account	35,619,174	62,814,254
Statutory and Payroll Deductions	441,328	7,886,066
Accruals expenses	82,880,239	140,823,882
Deposits received	40,350,420	38,602,741
Advance Tax Motor Vehicles	(591,323)	0
Accrued leave, Audit & tax fees	35,060,332	43,765,239
Withholding Tax	2,154,657	948,819

200,801,229 **297,767,050**

Payables & Accruals

840,348,507 **1,296,353,992.69**

17. Related party (Gov. of Kenya)

Related party (Gov. of Kenya)	2,995,884	2,995,884
Related party (Kenya Dairy Board)	(8,563,386)	(11,822,586)

(5,567,502) **(8,826,702)**

18. Gratuity for Senior Mgt Staff

40,814,986 14,945,435

19. Tax Payable

Taxation Payable as at 1-7-2011	(65,178,590)	(104,197,134)
Current tax	179,265,258	39,018,544
Deferred Tax	-	-
Total Tax	114,086,668	(65,178,590)

Less Prior Year Tax & Current Year Installment Paid
Tax Payable **114,086,668** **(65,178,590)**

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS CONT.
FOR THE YEAR ENDED 30 JUNE 2012

	2012	2011
20. Sales		
Fresh milk/TCA/TFA	5,738,601,978	5,164,201,223
Ultra Heat Treated(UHT) milk	318,413,844	540,386,583
Powder milk	739,141,515	801,065,795
Mala milk	419,704,841	409,020,793
Other dairy products	557,305,211	562,353,338
Less Transport rebates/discount allowed for cash	(146,492,196)	(91,047,351)
	7,626,675,193	7,385,980,381
21. Cost of Sales		
Opening stocks	1,428,764,879	1,367,772,410
Purchases	3,499,691,126	4,438,892,858
Production overheads	1,372,159,192	1,339,889,115
Closing stock	(482,934,444)	(1,428,764,879)
	5,817,680,753	5,717,789,503
22. Other Income		
Rent	7,286,565	10,080,736
Sale of tender documents	2,606,896	4,256,397
Other miscellaneous income	3,145,610	1,187,356
	13,039,072	15,524,488
23. Selling Expenses		
Staff Costs	186,187,972	142,181,975
Advertising and Promotion	66,228,640	51,764,770
Distribution and Transport	326,902,353	365,379,390
Provision for Bad Debts	3,288,958	(13,131,310)
Travelling	21,593,414	24,876,944
Other Selling Expenses	128,744,226	94,251,188
Write Off-Wastages and bad stocks	41,639,882	44,180,010
	774,585,445	709,502,968
24. Administrative Expenses		
Staff Costs		
Salaries	180,880,946	119,516,406
Medical	24,249,439	18,315,601
Gratuity	21,146,547	12,817,983
Leave pay	(2,753,900)	8,857,164
Staff training	1,342,086	1,162,903
Other staff costs	11,430,394	9,700,485
	236,295,511	170,370,541

NEW KENYA CO-OPERATIVE CREAMERIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS CONT.

FOR THE YEAR ENDED 30 JUNE 2012

DIRECTORS EXPENSES

	Ksh	Ksh
Sitting allowances	7,660,000	9,160,000
Mileage	397,761	930,701
Accommodation	2,327,000	3,704,110
Air tickets	431,208	696,265
Taxi	63,900	108,300
Honorarium	960,000	960,000
Telephone	84,000	84,000
Meals	415,340	71,067
Overseas allowances	374,161	563,767
Directors' Bonus	2,100,000	-
Medical	39,334	193,477
	14,852,705	16,471,687

ADMINISTRATIVE COSTS

Auditor's Remuneration	1,500,000	1,500,000
Legal and Professional Fees	6,377,978	10,515,941
Repairs and Maintenance	7,195,227	6,244,772
Insurance	25,614,994	24,572,296
Stationery and Printing	3,704,103	10,535,598
Communication	5,462,623	6,371,909
Security	8,525,961	12,966,163
Electricity	1,837,909	2,291,838
Water and Sewerage	306,756	984,297
Depreciation and Leasehold amortization	146,853,244	112,588,416
Other Office Expenses	120,560,477	112,518,422
	327,939,273	301,089,651

25. Finance Costs

Bank Charges and Commission	21,921,270	12,151,238
Exchange Loss/Gain	(218,891)	(1,453,327)
Interest on Overdraft	102,905,178	48,666,491
Interest on Loan	41,398,530	38,660,809
	166,066,087	98,025,211

26. Tax Expenses

Current tax	179,265,258	39,018,544
Deferred tax	(125,687,464)	(143,643,626)
Tax on business income	53,577,794	(104,625,082)
Total tax expense	53,577,794	(104,625,082)



KCC UHT MILK

Long life whole milk



**NEW
KENYA
CO-OPERATIVE
CREAMERIES LTD**

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Life's goodness everyday!