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NEW KENYA CO-OPERATIVE CREAMERIES LTD



Annual Report and Financial Statements 2005/6

KCC
GOLD CROWN
Milk



Crowning your Life Everyday

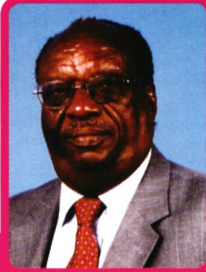
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MATU WAMAE
CHAIRMAN



MR. PATRICK KHAEMBA
PS - MINISTRY OF COOPERATIVES
DEVELOPMENT & MARKETING



DR. J. O. MIARON
PS - MINISTRY OF LIVESTOCK &
FISHERIES DEVELOPMENT



JOSEPH KINYUA
PS - MINISTRY OF FINANCE



MR. TIMOTHY BUSIENEI
DIRECTOR



MR. ELIJAH IRERI
DIRECTOR



MR. DAVID MOGERE
DIRECTOR



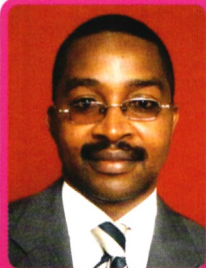
ENG. ALEXANDER NG'ENO
DIRECTOR



ENG. JOHN MUSAKALI
DIRECTOR



MRS. RIZIKI SPANA
DIRECTOR



FRANCIS M. MWANGI
MANAGING DIRECTOR



MILCAH MUGO
COMPANY SECRETARY

INTRODUCTION

I am delighted to present the Annual Report and financial statements of New Kenya Co-operative Creameries Ltd for the period of 18 months ended 30TH June 2006. During this period, the company recorded yet another improved performance with significant growth in all areas.

CONTRIBUTION TO THE DAIRY SECTOR

We are proud to report that we have contributed significantly towards the growth and stability achieved in the dairy industry both in quality production of milk, stability in prices and prompt payment to the dairy farmers.

COMPANY RESULT

The financial results for the period of eighteen (18) months ended 30th June 2006 are very encouraging, the challenges not withstanding. The profit before tax of Kshs 349.8 million is a major increase from the previous loss of Kshs 8 million reported last period. The Company has turned round to profitability.

For the period under review, the company achieved a gross turnover over of Kshs 4.9 Billion which was 100% above that reported last year. Operating expenses were Kshs.89 % of the total turnover.

A total of KShs.104 million was incurred on account of repairs and rehabilitation of facilities. When NKCC Limited started operations in July 2003, the plant conditions were in deplorable state of repairs. There is also in the accounts heavy depreciation cost of KShs.84 million.

The Company has further recorded significant growth as a result of 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 under a competitive environment.

This is attributed to consistent intake of quality raw milk, effective management of operational costs and procurement of new motor vehicles, processing and packaging machines and equipment.

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 of Directors
- Board meetings
- Board committees



OUTLOOK AND STRATEGY FOR YEAR 2007/2008

We have gone through a challenging period of three years since the inception of NKCC, with stiff competition, bad roads, unpredictable weather, cheap imports and exorbitant production costs due to escalating prices of fuel, electricity, packaging materials and water.

Having successfully revived the business, rehabilitated and improved processing and packaging facilities, we are now better placed to address the major challenges in the coming year.

The key objectives for the coming year shall include:

- Optimization of the installed capacity
- Increases profitability
- Modernization of facilities
- Recruitment, training and motivation of our personnel.

To achieve these objectives, we revised our five-year strategic plan covering the period 2007 to 2011, and we are optimistic that we shall achieve satisfactory performance during the next year.

APPRECIATION

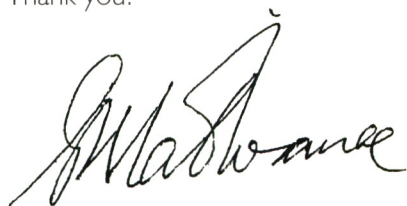
In conclusion, I take this opportunity to sincerely thank the Board, Management and staff who played an invaluable role during the year. I thank them most sincerely for their hard work and dedication.

Further, on my behalf and that of the entire Board, Management and Staff, and the entire NKCC community, I take this opportunity to sincerely thank, all our farmers, our customers for their support and patronage.

I also wish to thank the Permanent Secretary's office, Ministry of Co-operative Development and Marketing, other Government Ministries, all the stakeholders and the entire Kenyan community for their continued support. With this support, we have been able to achieve success within a short time of three years.

This support and goodwill has enabled NKCC to achieve positive results to the benefit of the whole dairy sub-sector and the Kenya economy.

Thank you.



MATU WAMAE (EBS)

Chairman

I am pleased to report that New KCC Limited has achieved and recorded impressive positive performance during the period of 18 months ended 30th June 2006. These results were achieved during the tenure of the then General Manager, Mr. P. N. Gaitara. I take this opportunity to thank Mr. Gaitara for his service, commitment and diligence. I am honoured to be his successor.

NKCC VISION

The NKCC vision is to be the preferred dairy company of international standing providing high quality products.

MISSION

To provide high quality processed milk and other dairy products for the benefit of all stakeholders while caring for the communities and the environment around us.

CORE VALUES

Our core values are:

1. Integrity
2. High quality products and services
3. Trendy and innovative
4. Equity and fairness in all our undertaking
5. Excellence in everything we do
6. Customer satisfaction
7. Environmentally friendly
8. Corporate Social Responsibility
9. Embracement of Good Corporate Governance
10. Open Communication
11. Transparency in all dealings

MILK INTAKE

During the period under review, the company received and processed a total of 190 million litres of raw milk, which was 200% higher than last financial year. Consequently, we paid out a total sum of KShs.3.3 billion to the dairy farmers compared to KShs 1.2 billion paid during the previous trading period. This was about 200 % growth in payout to raw milk suppliers spread across the country

FARMER SUPPORT PROGRAMME

We have continued to intensify support to our major suppliers, the farmers' to ensure increased production of quality raw milk and ultimately quality products for our consumers.

To educate farmers on improved milk production practices, we have expanded the field services program to cover all the major milk producing regions countrywide. In addition, we have facilitated farmers with testing equipments to enable milk quality tests at farm level.

To facilitate sustainable capacity building for farmers delivering milk to New KCC, we have negotiated favorable credit schemes with a number of financial institutions whereby delivery of milk to our organization is the only collateral.



These and other support schemes have gone a long way in boosting milk production in the country.

MARKETING STRATEGY

We have developed a wide range of brands covering various consumer segments and needs and our products are now readily available in all retail outlets countrywide at very competitive prices. We also continue to innovate and renovate around our brands to satisfy and meet changing consumer demands while improving our products quality.

To further consolidate our market leadership and improve on the current performance, the business will be committing more resources on strengthening the sales, marketing and distribution functions. The strategy will be geared towards total exploitation of the local market opportunities and development of export markets.

HUMAN RESOURCE

We do recognize that human resource is the engine which drives achievement of our mission, vision and overall strategy. We have therefore undertaken a series of initiatives to improve and optimize this area.

Recruitment and Selection

The company is committed to both attracting and retaining the best talent in the right positions. To ensure this, we have put in place an elaborate recruitment, selection and placement policy. This has seen the company attract very high calibre employees who are making a positive impact in the organization.

Capacity Building

The company has implemented a training policy that will ensure that employees at all levels of the organization continue to develop their skills in order to remain relevant and competitive, in this highly dynamic market. There are plans to ensure that all managers attend relevant management and other courses. Meanwhile, periodic in-house training is taking place in various fields. The company intends to launch a "culture change programme" for the entire organization. This is aimed at building team work in the organization, communicating and embedding the company mission and vision to all the employees and developing a performance based culture.

Improvement of terms of employment

The company has commissioned a Job evaluation with a view to harmonizing our terms with the rest of the market. This will however, depend on company's performance.

Performance Management system

The company has also commissioned a programme to put in place a performance Management system. This will re define the key result areas for the organization, departments and individuals and put in place an appraisal tool and a reward scheme aimed at releasing the full potential for individual employees and the entire organization.

THE FUTURE

For the organization to remain competitive, we shall be focusing on opening and exploiting new market opportunities, enhancing our production capacity and efficiency, cost reduction initiatives, long term partnership with all our stake holders, strong internal controls and development of a strong performance based culture .

OUR COMMITMENT

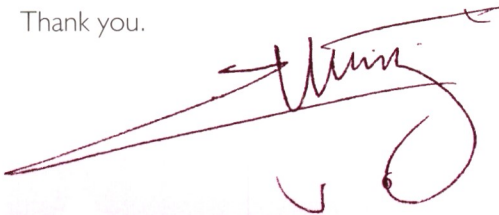
We are committed to deliver beyond our volume and financial objectives as set out in our strategic plan.

CONCLUSION

On behalf of the Management team of New KCC, I wish to thank the Board of Directors for their professional guidance and leadership during the period, our dear farmers, suppliers and the Government for their continued support.

I am confident that together, we shall overcome the challenges ahead and look forward to reporting sterling results for the current financial year.

Thank you.



FRANCIS M. MWANGI
Managing Director

MANAGEMENT TEAM



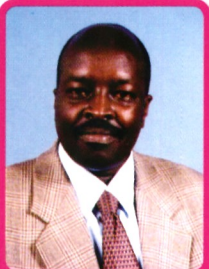
FRANCIS M. MWANGI
MANAGING DIRECTOR



PATRICK MUTISYA
FINANCIAL CONTROLLER



MRS OLGHA ADEDE
SALES & MARKETING MANAGER



GEOFFREY BARTENGE
PRODUCTION MANAGER



MIKE CHELUGET
HUMAN RESOURCES MANAGER



PATRICK MUGAMBI
QUALITY ASSURANCE &
PRODUCT DEVELOPMENT
MANAGER



PETER KIBOI
ENGINEERING MANAGER



MILCAH MUGO
COMPANY SECRETARY



OBONYO W. WARINGA
CHIEF INTERNAL AUDITOR

The directors submit their report and the audited financial statements for the eighteen months period ended 30 June 2006 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 take over 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.

The comparative figures are of the eighteen months period ended 31/12/2004 and the current eighteen months period ended 30/06/2006. However, it is worth noting that the ownership and business of the company did not change and hence the use of the comparatives

3. RESULTS

The results for the period are as set out on pages 14 to 17

4. DIVIDENDS

The directors do not recommend the payment of dividend in respect of the period ended 30 June 2006.

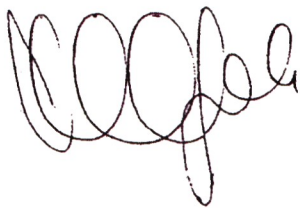
5. DIRECTORS

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

Matu Wamae - Chairman	- Appointed as director on 26 June 2003 and appointed as Chairman on 1 January 2005
Prudenzio N. Gaitara - General Manager	- Appointed on 24th June 2003, retired on 24/06/06
Joseph Kinyua	- Appointed on 26th June 2003 Re-appointed on 1st January 2005
Charles M. Onchoke	- (Alternate to Joseph Kinyua), Appointed on 1 January 2005
Eng. David Stower	- Appointed on 1st January 2005 Transferred and replaced by Dr. J. O. Miaron
Dr. J.O. Miaron	- Appointed 28th August 2005
Julius Kiptarus	- (Alternate to Eng. David Stower and later Dr. J.O. Miaron) Appointed on 26 July 2004, reappointed on 1st January 2005
David Mogere	- Appointed on 26 June 2003, Reappointed on 01 January 2005

- | | |
|--------------------------|--|
| Timothy Busienei | - Appointed on 14 April 2004, reappointed 01 January 2005 |
| Solomon S. Boit | - Appointed on 1 July 2004, Reappointed 01 January 2005
Transferred on 28th August 2005 and replaced by Mr. Patrick Khaemba |
| Patrick Khaemba | - Appointed on 28th August 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 |

By Order of the Board



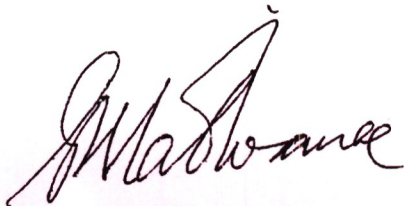
MILCAH G. MUGO

**ON THE FINANCIAL STATEMENTS
FOR THE EIGHTEEN MONTHS PERIOD ENDED 30TH JUNE 2006**

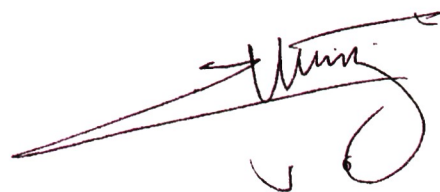
The Companies Act Chapter 486 of the Laws of Kenya requires the Directors to prepare financial statements for each period, which give true and fair view of the state of affairs of the Company as at the end of the financial period and of its operating results for that period. It also requires the Directors 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 judgement 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 accept 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.



E. MATU WAMAE
Chairman.



FRANCIS M. MWANGI
Managing Director

REPUBLIC OF KENYA

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NAIROBI



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NEW KENYA CO-OPERATIVE CREAMERIES LIMITED FOR THE 18 MONTHS ENDED 30 JUNE 2006

I have audited the financial statements of New Kenya Co-operative Creameries Limited for the 18 months ended 30 June 2006 in accordance with the provisions of 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. The financial statements are in agreement with the books of account.

Respective responsibilities of the Directors and the Controller and Auditor General

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 its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes the examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Fixed Assets

Included in the Property, Plant and Equipment figure of Kshs.2,609,860,744 as at 30 June 2006 is an amount of Kshs.601,430,000 being the value of 38 parcels of land and buildings whose title documents were not



produced for audit verification. Further, the fixed assets figure excludes the value of 15 unvalued parcels of land and buildings out of which nine (9) located in Nairobi and one (1) in Nakuru are under dispute and have no title deeds. In the circumstances, it is not possible to ascertain ownership of the respective land parcels and buildings without the title deeds or to confirm the carrying values at 30 June 2006.

2. Comparative Figures

Included in the financial statements for the period ending 30 June 2006 are comparative figures with respect to the period ending 30 December 2004 which are audited balances of New Kenya Co-operative Creameries Ltd registered as a Cooperative Society on 24 June 2003. However, the change of the legal status to a company would require the Memorandum of Articles of Association of the Company to stipulate continuity of operations. The Memorandum and Articles of Association in this case have no such clause. The inclusion of comparative figures therefore assumes continuity of operations without having been incorporated in the Memorandum and Articles of Association of the company. In the circumstances, it was not possible to confirm the validity of the balances that relate to a Cooperative Society being reflected as comparatives.

Opinion

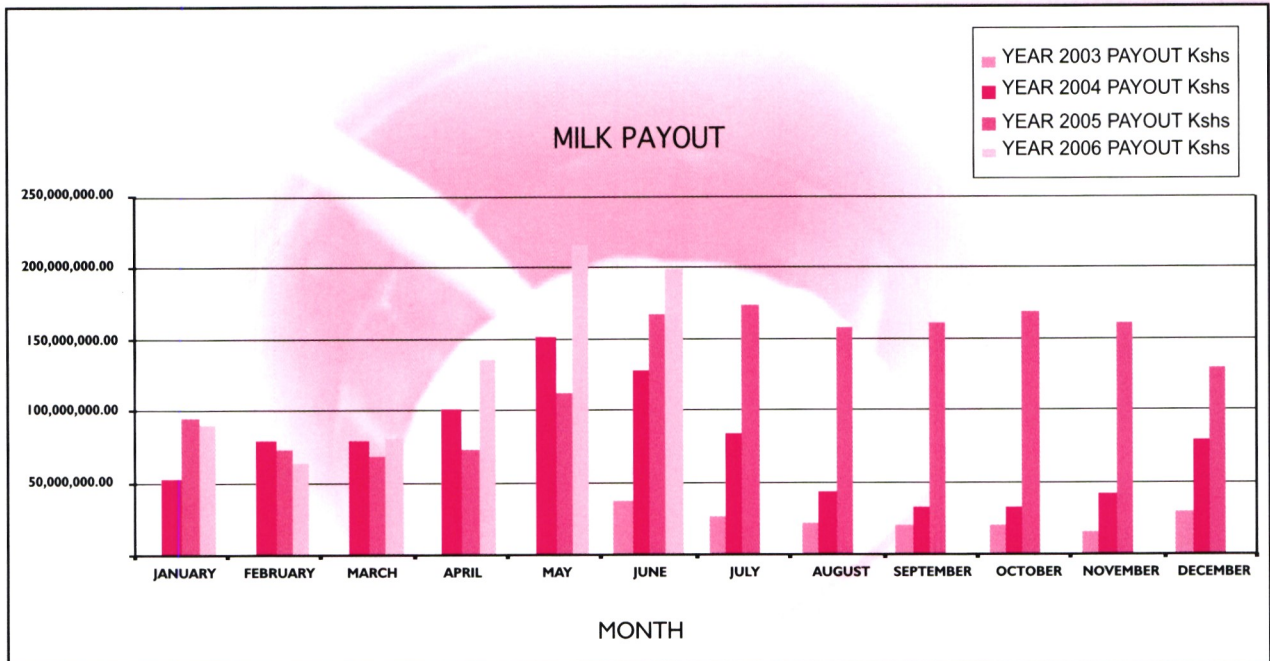
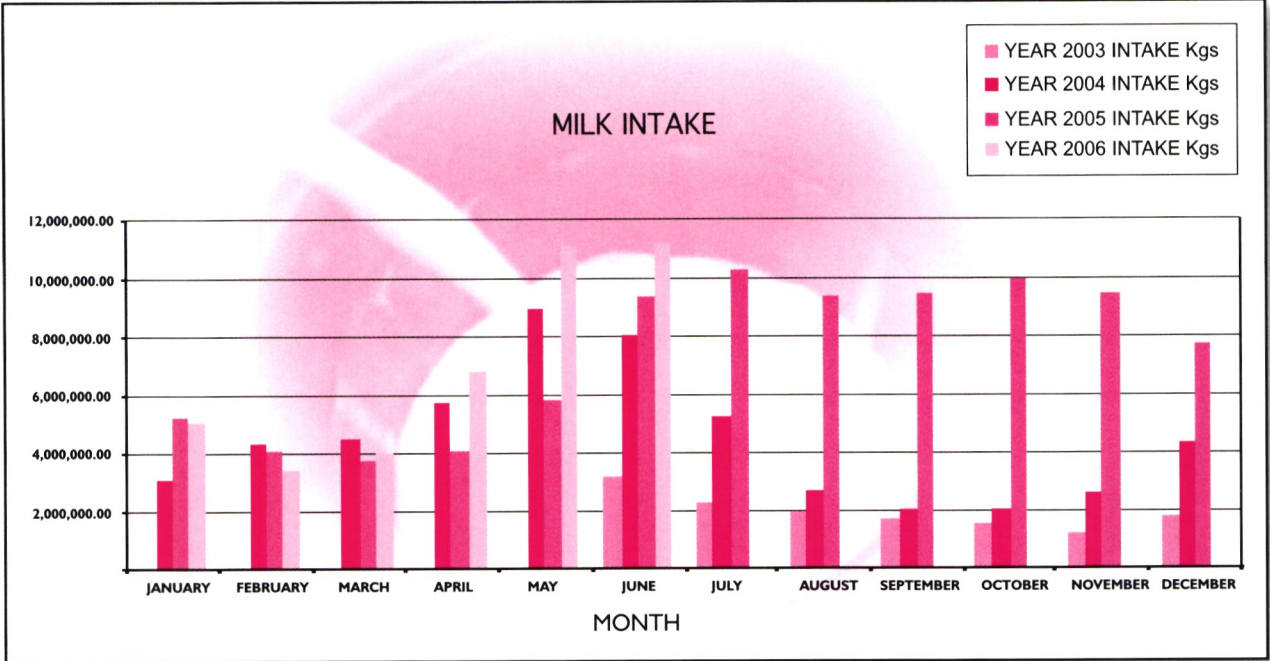
Except for the reservations set out in the preceding paragraphs, in my opinion, proper books of account have been kept and the financial statement give a true and fair view of the state of affairs of the company as at 30 June 2006 and of its profit and cash flows for the year then ended in accordance with International Financial reporting Standards and comply with the Kenyan Companies Act, Cap 486.



P. N. KOMORA
Controller and Auditor General

Nairobi

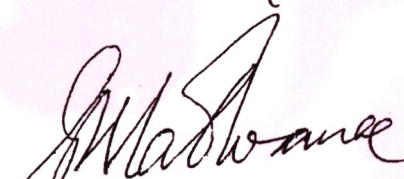
20 February 2007



AS AT 30 JUNE 2006

	Note	June 2006 Kshs.	Dec. 2004 Kshs.
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	2	2,609,860,744	499,462,594
Prepaid Leases on Land	3	332,450,000	39,035,202
		2,942,310,744	538,497,796
CURRENT ASSETS			
Stocks	4	670,772,435	201,066,869
Debtors and Prepayments	5	420,434,605	107,052,957
Cash and Cash equivalents	6	34,348,846	52,008,564
		1,125,555,886	360,128,390
TOTAL ASSETS		4,067,866,630	898,626,186
SHAREHOLDERS FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share Capital	7	20	20
Contribution pending allotment	8	547,028,850	547,028,850
Revenue reserves	9	247,112,635	(9,132,125)
Revaluation Reserves	9	1,759,060,039	
		2,553,201,544	537,896,745
NON-CURRENT LIABILITIES			
Term Loan	10	55,397,827	20,644,783
Deferred tax	13	605,456,932	907,783
		660,854,759	21,552,566
CURRENT LIABILITIES			
Current portion of term loan	10	34,344,303	10,199,533
Overdraft	11	31,894,784	
Creditors and Accruals	12	611,179,664	226,025,443
Related party balances	12	65,015,928	102,951,899
Tax payable	13	111,375,647	
		853,810,326	339,176,875
TOTAL SHAREHOLDERS FUNDS & LIABILITIES		4,067,866,630	898,626,186

These financial statements were approved by the board of directors on 19th December 2006 and were signed on its behalf by:


E. MATU WAMAE
Chairman


FRANCIS M. MWANGI
Managing Director

FOR THE EIGHTEEN MONTHS ENDED 30 JUNE 2006

	Note	June 2006 Kshs.	Dec. 2004 Kshs.
SALES	14	4,905,174,359	2,490,735,002
COST OF SALES	15	(3,043,626,490)	(1,743,141,314)
<hr/>			
GROSS PROFIT		1,861,547,868	747,593,688
OTHER INCOME	16	38,117,203	18,591,112
<hr/>			
		1,899,665,071	766,184,800
<hr/>			
EXPENSES			
Administrative expenses	17	(889,396,480)	(497,980,581)
Selling expenses	18	(602,767,891)	(261,414,881)
<hr/>			
PROFIT FROM CONTINUING ACTIVITIES		407,500,700	6,789,338
FINANCE COSTS	19	(57,671,412)	(15,013,680)
<hr/>			
PROFIT\ (LOSS) BEFORE TAXATION		349,829,288	(8,224,342)
TAXATION	13	(113,111,851)	(907,783)
<hr/>			
PROFIT \ (LOSS) FOR THE PERIOD		236,717,437	(9,132,125)
<hr/>			
PROFIT \ (LOSS) PER SHARE		118,358,719	(4,566,063)

FOR THE EIGHTEEN MONTHS ENDED 30 JUNE 2006

	Share Capital Kshs.	Contributions Pending allotment Kshs.	Reserves Kshs.	Total Kshs
31 December 2004	20	547,028,850	-8,224,342	538,804,528
Net Profit for the Year			236,717,437	236,717,437
Prior year profit adjustment			18,619,540	18,619,540
Revaluation of Assets during the year			1,759,060,039	1,759,060,039
30 June 2006	20	547,028,850	2,006,172,674	2,553,201,544

FOR THE EIGHTEEN MONTHS ENDED 30 JUNE 2006

	Note	2006 Kshs	Dec. 2004 Kshs
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		349,829,288	(8,224,342)
Adjustments for:			
Prior year adjustment-reserves		17,514,130	-
Depreciation		82,416,649	60,317,358
Amortisation of leasehold land		1,176,254	1,173,190
<hr/>			
Operating profit before working capital changes		450,936,321	53,266,206
Stocks		(469,705,566)	(201,066,869)
Debtors & Prepayments		(313,381,648)	(107,052,957)
Creditors and accruals		385,154,222	226,025,443
Related party balances		(37,935,971)	102,951,899
<hr/>			
Cash generated from operations		15,067,358	74,123,722
<hr/>			
Income taxes & penalties paid		(3,864,581)	-
<hr/>			
CASH FLOW TO/FROM INVESTING ACTIVITIES			
Proceeds from disposal of property &and equipment		637,759	3,200,000
Purchase of property, plant and equipment		(120,292,851)	(603,188,344)
<hr/>			
Net Cash flow to investing activities		(119,655,092)	(599,988,344)
<hr/>			
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of share capital		-	20
Capital Contribution pending allotment		-	547,028,850
Term loan		58,897,814	30,844,316
<hr/>			
Net Cash flow from financing activities		58,897,814	577,873,186
<hr/>			
NET INCREASE IN CASH AND CASH EQUIVALENT			
CASH AND CASH EQUIVALENT AS AT 31.12.2004		(49,554,499)	52,008,564
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CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD		2,454,065	52,008,564
<hr/>			

FOR THE EIGHTEEN MONTHS ENDED 30 JUNE 2006

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.

(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 30.06.06.

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.

(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 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 a profit and loss account in the period to which they relate.

(h) Employee Entitlement

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

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

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

(i) Bad and Doubtful Debts

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

(j) Taxation

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

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

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

(k) Cash and Cash Equivalents

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

(l) Comparative figures

On 24 June 2003, New Kenya Co-operative Creameries (NKCC) Limited was registered under the Co-operative Societies Act to facilitate the take over 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

The comparative figures are of the eighteen months period ended 31/12/2004 and the current eighteen months period ended 30/06/2006. However, it is worth noting that the ownership and business of the company did not change and hence the use of the comparatives.

2. PROPERTY, PLANT & EQUIPMENT

	Freehold land Buildings, & railway sidings 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 accessories Kshs	Total Kshs
Cost									
1st January 2005	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
Revaluation	1,586,832,312	-	381,842,578	7,181,665	-	-	-	(7,918,542)	1,967,938,013
Additions	13,505,428	10,221,507	73,996,766	48,793	460,042	14,847,904	17,038	7,195,372	120,292,851
Disposals	(689,469)	-	-	-	-	-	-	-	(689,469)
30th June 2006	1,972,935,000	47,152,168	583,129,000	8,711,825	6,162,946	24,873,324	348,085	4,009,000	2,647,321,348
Depreciation									
1st January 2005	27,767,809	10,090,004	19,202,277	266,594	949,634	1,475,801	45,194	520,046	60,317,358
Revaluation	(55,563,685)	-	(44,583,197)	(545,541)	-	-	-	(4,529,268)	(105,221,690)
Charge	27,847,586	15,898,918	25,380,919	278,947	1,109,750	7,828,193	63,111	4,009,222	82,416,646
Disposals	(51,710)	-	-	-	-	-	-	-	(51,710)
30th June 2006	-	25,988,922	-	-	2,059,384	9,303,993	108,305	-	37,460,605
Net book values									
30th June 2006	1,972,935,000	21,163,246	583,129,000	8,711,825	4,103,562	15,569,331	239,780	4,009,000	2,609,860,744
1st January 2005	345,518,920	26,840,657	108,087,378	1,214,773	4,753,270	8,549,620	285,853	4,212,123	499,462,595

The revaluation gain for Kshs. 2,367,750,760 net of deferred tax (Ksh 1,759,060,039) arose from the revaluation of the company assets by Ms. Tysons Limited as at 30th June 2006.

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, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

3. PREPAID LEASES

Prepaid Leases on Land Cost	2006 Kshs	2004 Kshs.
1st January	40,208,392	40,208,392
Revaluation gain/(loss)	292,241,608	-
Additions	-	-
Disposals	-	-
30 June 2006	332,450,000	40,208,392
Depreciation		
1 January	1,173,190	-
Charge for the year	1,176,254	1,173,190
Disposal	-	-
Charge reversed on revaluation	(2,349,444)	-
30 June 2006	-	1,173,190
Net Book values	332,450,000	39,035,202

4. STOCKS

	2006 Kshs.	2004 Kshs.
Bulk milk and Produce stocks	453,569,252	49,092,197
Material	146,410,128	84,212,262
Engineering	228,425,379	67,762,410
Material Price/Stock Valuation Variance	(66,861,522)	-
Provision for Obsolete Eng. Stores spares	(90,770,801)	-
	670,772,435	201,066,869

The valuation for materials and finished goods were done at standard cost at the end of the financial year. The materials price/stock valuation variance of Kshs 66,861,522 is the difference between the ledger figures posted at actual costs and the standard cost valuation figure used at the end of the financial period.

5. DEBTORS AND PREPAYMENTS

	2006 Kshs.	2004 Kshs
Trade debtors	159,771,475	74,686,985
Receipts in Suspense	-	(6,134,251)
Other Debtors	60,572,485	6,866,236
Prepayments	200,090,645	29,075,587
	420,434,605	104,494,557

6. CASH AND CASH EQUIVALENTS

Bank and Cash Balances	29,586,175	45,372,308
Bank Deposits	4,762,671	6,866,236
	34,348,846	52,008,564

7. SHARE CAPITAL

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

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. RESERVES

Revenue reserves		
Balance at beginning of period		(8,224,342)
Prior year adjustments		18,619,540
Current year profit		236,717,437
		247,112,635
Prior Year adjustments made of:		
Payments for 2004 expenses not recognized in the 2004 accounts		10,424,706
Errors in 2004 accounts now corrected		8,194,834
		18,619,540

	2006 Kshs.	2004 Kshs
Revaluation reserve		
Revaluation of plant, property & equipment	2,028,969,060	
Less deferred tax	(608,690,721)	
Net of deferred tax	1,420,278,339	
Add leasehold & freehold revaluation gain	338,781,687	
Total	1,759,060,039	

10. TERM LOAN

Co-operative Bank of Kenya	79,166,667	4,722,741
Tetra Pak Loans	9,199,060	26,121,575
Bottle Machine Loan	870,866	-
Car Loan	505,538	-
	89,742,130	30,844,316
Less: Current Portion	(34,344,303)	(10,199,533)
Long term Portion	55,397,827	20,644,783

The Loan from Co-operative bank of Kenya 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 1 October 2003. It attracts interest at a rate of 10% per annum and the purpose was for the purchase of equipment from Tetra Pak Limited.

11. BANK OVERDRAFT

(31,894,784)

These relates to the overdraft in the Co-operative bank account

12. CREDITORS AND ACCRUALS

Trade Creditors	263,083,168	96,686,302
Dairy Farmers	203,027,526	78,927,763
Other Creditors and Accruals	145,068,970	50,411,378
	611,179,664	226,025,443

RELATED PARTY BALANCES

Due to the Government of Kenya	65,015,928	102,951,899
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The Government of Kenya wholly owns NKCC LIMITED. 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.

13. TAXATION

BALANCE SHEET

DEFERRED TAXATION

The net deferred tax is attributable to the following items:

Excess of Depreciation over tax allowances		137,822,342
Provisions		(7,768,566)
Tax Losses carried forward		(129,145,698)

On revaluation reserve	608,690,721	
At the start of period	(3,233,789)	

	605,456,932	907,783
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PROFIT AND LOSS

Current tax	65,664,844	
Deferred tax	47,787,940	
Under/(over)provision of deferred tax prior year	(4,141,572)	

Tax on business income	109,311,212	
Tax on rent income	3,800,639	

Total tax	113,111,851	
Less tax installments paid	(1,736,204)	

Tax payable	111,375,647	
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	2006	2004
	Kshs.	Kshs

14. SALES

Fresh Milk	3,195,510,949	1,534,126,576
Ultra Heat Treated (UHT) milk	863,664,796	487,389,268
Powder Milk	432,872,350	196,337,779
Mala milk	181,938,212	130,274,312
Other Dairy Products	231,188,052	142,607,067

	4,905,174,359	2,490,735,002
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15. COST OF SALES

Opening Stocks	133,304,459	62,764,975
Purchases	3,510,301,412	1,813,680,798
Closing Stock	599,979,381	133,304,459

	3,043,626,490	1,743,141,314
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NOTES TO THE FINANCIAL STATEMENTS (CONT)

	2006 Kshs.	2004 Kshs
16. OTHER INCOME		
Rent	13,205,298	12,032,337
Insurance compensation	7,682,923	3,487,811
Disposal of vehicles	10,482,079	
Sale of tender documents	5,791,999	
Other Miscellaneous income	954,904	3,070,964
	38,117,203	18,591,600
17. ADMINISTRATION AND ESTABLISHMENT EXPENCES		
Staff costs	351,078,106	200,117,416
Auditors remuneration	3,581,150	1,200,000
Legal and Professional services	20,303,135	3,500,238
Repairs and Maintenance	103,666,632	75,761,816
Insurance	11,374,167	7,641,927
Stationery and printing	16,879,647	7,745,373
Laboratory chemicals	13,526,663	2,635,328
Communication	16,638,497	10,579,952
Security	37,420,685	24,851,896
Electricity	129,125,969	63,628,886
Water and Sewerage	37,180,219	63,628,886
Depreciation and Leasehold amortization	83,592,903	61,490,548
Directors expenses	18,504,189	5,800,000
Other Office expenses	46,524,518	10,702,899
	889,396,480	497,980,581
18. SELLING EXPENSES		
Advertising and promotion	29,152,772	13,145,600
Distribution and Transport	321,248,108	132,041,158
Provision for bad debts	67,704,744	13,991,048
Travelling	28,070,557	23,868,526
Motor Vehicle running	156,591,709	73,405,871
Discount Allowed	-	4,962,678
	602,767,891	261,414,881
19. FINANCE COSTS		
Bank Charges and Commission	15,111,225	10,541,303
Interest on Overdraft	29,547,491	1,925,426
Interest on machinery loan	13,012,696	2,546,951
	57,671,412	15,013,680

FOR THE 18 MONTHS PERIOD ENDED 30TH JUNE 2006**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 LIMITED

INDUSTRIAL AREA BRANCH.
P.O. BOX 18081-00500
NAIROBI.

STANBIC BANK LIMITED

INDUSTRIAL AREA BRANCH
P.O.BOX 30550-00100
NAIROBI

SOLICITORS.**MURIU MUNGAI & COMPANY ADVOCATES**

BRITAK CENTRE, UPPERHILL
RAGATI/MARA ROAD
P.O. BOX 75352-00200
NAIROBI

SECRETARY.

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

AUDITORS**CONTROLLER & AUDITOR GENERAL****KENYA NATIONAL AUDIT OFFICE**

P.O. BOX 30084-00100
NAIROBI



President Mwai Kibaki plants a tree during the official opening of KCC Miritini factory



Celebrating with children from Mama Ngina Kenyatta children's home



New KCC staff donate milk to celebrate with children of Mary Immaculate Rehab Centre



KCC Shake buffalos team cosponsored by New KCC during the Bamburi Rugby Super series tournament in March 2006



New KCC Chairman, Matu Wamae, guides Hon. Munyao, Minister of Livestock and Fisheries Development during the 2006 Nairobi International Trade Fair



New KCC staff and directors during the official opening of KCC Miritini Factory

NEW KENYA CO-OPERATIVE CREAMERIES



Life's goodness everyday!

New Kenya Co-operative Creameries Limited

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