NEW KENYA CO-OPERATIVE CREAMERIES LTD

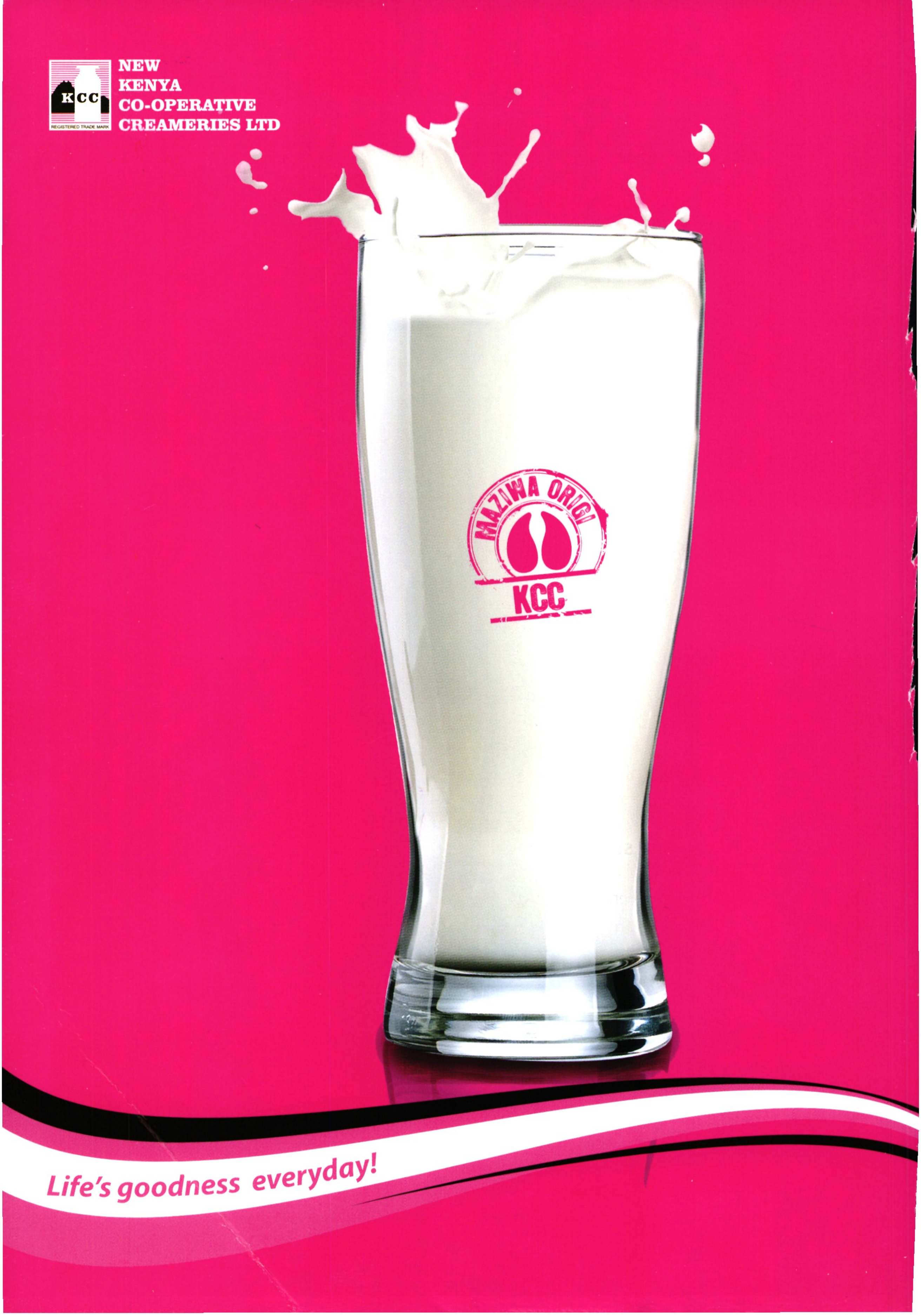
KCC
REGISTERED TRADE MARK

Life's goodness everyday!

ANNUAL REPORT

AND FINANCIAL STATEMENTS

2012 - 2013


KCC
REGISTERED TRADE MARK
NEW
KENYA
CO-OPERATIVE
CREAMERIES LTD
MAZIWA ORIGI
KCC
Life's goodness everyday!

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COMPANY INFORMATION

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. BOX67881- 00200
NAIROBI

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

STANDARD CHARTERED BANK LIMITED
INDUSTRIAL AREA BRANCH.
P. O. BOX18081-00500
NAIROBI

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

EQUITY BANK LTD
ENTERPRISE BRANCH
P. O. BOX 75104-00200
NAIROBI

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

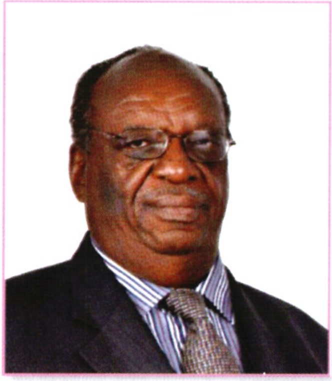
J. M. NJENGA & CO. ADVOCATES
TELEPOSTA TOWERS (GPO) 5TH FLOOR
P. O. BOX 1297-00100
NAIROBI

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

AUDITORS
AUDITOR GENERAL
KENYA NATIONAL AUDIT OFFICE
P. O. BOX30084-00100
NAIROBI

PETER OMBATI
AG. COMPANY SECRETARY

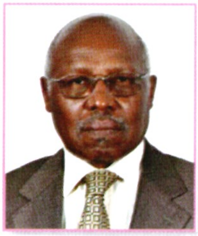
BOARD MEMBERS



Hon. Matu Wamae, EBS
Chairman

Dr. Kipkirui Arap Lang'at, OGW, MBS
Managing Director

Riziki Spana
Director



Dr. Samson Kiplagat Muttai
Director

William Wahome
Director

Mary Munene
Director

David Mogere
Director

Edward Irungu
Alternate Director, Ministry of Industrialization & Enterprise Development

Peter Kennedy Ombati
Chief Manager, Legal & Company secretary

Julius Kiptarus
Alternate Director, Ministry of Agriculture, Livestock & Fisheries Development

Beatrice Gathirwa
Alternate Director, National Treasury

Statement by the Chairman

Hon. Matu Wamae, EBS

Setting the pace for a viable dairy industry

At the close of the 2012/2013 Financial Year, New KCC marked its 10th year since its registration in June 2003.

Over the years, the company has continued to grow and weather the tough times and it is this ability to remain resolute that New KCC did not lose focus on delivering on its core mandate and remain committed to providing Life's goodness every day.

Our past informs our future

The dairy industry continued to be plagued by inconsistencies in production and supply of raw milk in sufficient quantities capable of fully meeting our local and regional demand, and New KCC was no stranger to this.

By the close of the financial year ending June 30th 2013, New KCC had received and processed 103,671,589.82kg of raw milk which while encouraging, represented a 3% decline in our overall milk intake from the previous year. This was for the most part due to the serious drought witnessed in the early part of the year.

Due to the scarcity of milk at farm level as occasioned by the prevailing dry spell, raw milk prices remained relatively high, and New KCC remaining true to its role as a stabilizer of raw milk prices, paid out an average of Kes 32.18 for every liter milk, which were among the highest in the industry, thereby ensuring our farmers continued to reap maximum benefits for their produce. At the close of the year under review, New KCC had paid out a total of Kes 3,336,241,116 to famers inclusive of bonuses.

Moving Forward

The persistent unpredictability of weather patterns characterized by erratic and unreliable rainfall and continued dependence on rain-fed agriculture proved a major stumbling block towards enabling the dairy sector reach its full potential, and New KCC recognized that our dairy farmers will be best served with more long term solutions aimed at shoring up milk supply especially during periods of declining production and thereby guaranteeing them even better and more consistent prices for their product.

To this end, the Company has engaged in aggressive and continued training and sensitization among our famers on the importance of preparing and preserving animal feed to sustain them during dry spell, thereby reducing widespread dependence on rain-fed agriculture which has consistently left the industry at the mercy of prevailing weather conditions, among other best practices for dairy farming.

Specifically, New KCC in conjunction with farmer organisations successfully held two premier livestock exhibition and auction and which saw over two thousand (2,000) farmers in each attendance as well as livestock exhibitors and other relevant service providers.

We continue to actively engage our farmers in mutually beneficial partnerships and during the year under review, the Company acquired twenty (20) new farm tanks which are being installed in strategic areas to ensure farmers are adequately served in otherwise milk-rich areas.

During the year under review, the Company entered into MOU's with select service providers to support our farmers in the areas of farmer financing, quality payment system and extension services. These partners include: Co-operative Bank, Mobipay Kenya Limited (MOBIPAY), Rafiki DTM, Century Deposit Taking Microfinance Limited, Jamii Bora Bank Limited, SNV and the Government of Kenya.

Appreciation

New KCC's continued success is the result of ongoing and unwavering commitment to the ideals of the company by all concerned stakeholders including our 1,500, strong work force.

On behalf of the Board of Directors, Management and Staff of New KCC, we wish to express our sincere gratitude for the continued support from our farmers, customers, and well-wishers both here and beyond our borders.

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

Hon. Matu Wamae, EBS
CHAIRMAN

Statement from the Managing Director

Dr. Kipkirui Arap Lang'at, OGW, MBS

The financial year ended June 30th 2013 saw the Company re-visit its goals and objectives to ensure it remained focused on its goals of becoming the premier dairy processor of choice in the region.

The 2012/2013 financial year under review, was a difficult period for the business that resulted in a pre-tax loss of Ksh 384,853,447, down from the Ksh 302,354,492 pre-tax profit reported in the 2011/2012 financial year. This was in part due to a fire that occurred at one of our key processing factories leading to significant loses in expected revenue, an incidence that while unfortunate, further compounded existing challenges of a tough business climate occasioned by increasing costs of doing business and low milk intake due to the persistent dry weather conditions.

Moving On

In spite of the challenges, the Company has not relented in its efforts to provide stability in the industry for the benefit of all our stakeholders and has successfully implemented several measures that will ensure our continued presence in the market.

Following successful certification for ISO 22000:2005 for Food Safety Management Systems, and in line with our commitment to maintaining the highest levels of quality, New KCC dedicated resources to ensure that all its eight (8) processing factories were still meeting ISO 22000:2005 standards. These internationally recognized standards are an important benchmarking tool in as far as ensuring continuous resource optimization, process controls, enhanced quality assurance on all our products and uninterrupted customer satisfaction.

In addition, we have successfully refurbished our existing machinery in select factories to ensure optimal production efficiency and upgraded our existing cold store facilities for continued quality assurance along the entire dairy value chain from farm to shelf.

The Generic industry campaign dubbed 'Do Milk', launched in 2012 by the Kenya Dairy processors Association in conjunction with other dairy industry players aimed at encouraging Kenyans from all walks of life to consume processed milk hence increasing milk consumption and positively changing perceptions towards milk, marked an important step in boosting the dairy industry. Internally, we put in place specific efforts to promote individual brands and product lines that culminated in the development and production of the famous TV commercial dubbed 'maziwa origi' which was rated among the top three adverts of the time.

As a key industry player that has been in existence since 1925, this campaign whose second phase is set for the coming financial year together with our other internal promotions, further validated New KCC's efforts to invest in affordable packaging options that guaranteed all our consumers across the economic divide access New KCC's quality and safe milk and dairy products, and which contributed towards our sales turnover of Ksh 5,277,808,029 for the year ended June 30th 2013.

Planning Ahead

Ours is a never ending business of continual improvement and we are encouraged by the support we continue to receive from all our stakeholders, both within and without the company and whose cooperation and unending commitment to the company has proved an invaluable resource to our continued success.

The Company, buoyed by continued good will as well as current and future market prospects for the local dairy industry, has made significant investments towards enhancing its production capacity which stands to benefit all our stakeholders including our farmers, consumers and business partners. Among the projects lined up and which will see us greatly increase our raw milk handling capacity are the installation and commissioning of new product lines at our Nyahururu and Sotik Factories and upgrading of existing equipment and machinery across our milk reception and processing plants across the country.

The Company has successful embarked on its journey towards ISO 9001:2008 certification for Quality Management System in an effort to streamline our operations and ensure quality service delivery across all locations, and we expect to be fully certified at the close of the next financial year.

With Appreciation

I note with much gratitude the support we continue to receive from the relevant government Ministries, Board of Directors, Management and staff of New KCC, without whom our collective achievement and continued growth would not be possible.

Our journey continues.
Thank you.

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

MANAGEMENT TEAM

Dr. Kipkirui Arap Lang'at, OGW, MBS
Managing Director

Peter Kennedy Ombati
Chief Manager, Legal & Company secretary

Peter Kiboi
Head of Engineering

Patrick Mutisya
Chief Manager, Finance

Damaris Chirchir
Chief Manager, Factory Operations

Magdalene Muthoka
Chief Manager, Human Resource & Administration

James Gateru
Chief Manager, Sales & Marketing

MANAGEMENT TEAM - Cont'd

David Malinga
Head of Logistics & Inventory

Dominic Menjo
Head of Raw Milk & Extension Services

Jamleck Mwangi
Head of Procurement

Samuel Ichura
Chief Manager, Internal Auditor & Risk Compliance

Stacy Too
Corporate Affairs Manager

Samuel Onyango
Head of Information & Technology

CORPORATE GOVERNANCE STATEMENT

In line with our vision to being the market leader in quality refreshing dairy products in East and Central Africa, New KCC is committed to providing quality dairy beverage and food products and services that are of international standing through sustainable innovation and effective value chain management.

In recognition of the importance of good corporate governance to ensure maximum value for all its stakeholders, New KCC remains true to its core values of Integrity, Loyalty, Innovativeness and Quality and further strives to act in accordance with laws of Kenya and in full appreciation of the diversity of the Kenyan people.

The company has in place a Code of Conduct that directs the Company in its dealings with its stakeholders including Government, Company directors, employees, customers, suppliers and the society at large, while also clearly spelling out policies and guidelines regarding employees' personal conduct. At all times, it is expected that the Board of Directors, Management, and Staff of New KCC will act with honesty, integrity, transparency and justice.

THE BOARD OF DIRECTORS

The Board is made up of twelve (12) directors whose unique skills, knowledge and experience collectively contribute to the running of the company. At the helm is the Board Chairman, appointed by the President and constituent directors appointed by the Minister for Co-operative Development and Marketing, the Company's parent ministry.

The Board of Directors is mandated to provide clear definitions of the Company's overall values and objectives while ensuring that proper procedures and practices have been put in place to protect the Company's assets and reputation.

The Board holds quarterly meetings with provisions for special board meeting whenever circumstances demand.

BOARD COMMITTEES

Under the State Corporations Acts, the Board of Directors set up the following five (5) committees which meet regularly under well-defined terms as set by the Board, and are tasked with assisting the Board in execution of its duties and authorities.

a) Technical Committee

1. Mr. William K. Wahome - Chairman
2. Principal Secretary - Ministry of Agriculture, Livestock & Fisheries Development
3. Dr. Samson Kiplagat Muttai - Director
4. Dr. Kipkirui Arap Lang'at - Managing Director

b) Marketing and Logistics Committee

1. Mr. David Mogere - Chairman
2. Mrs. Mary Munene - Director
3. Principal Secretary - Ministry of Industrialization & Enterprise Development
4. Dr. Kipkirui Arap Lang'at - Managing Director

c) **Finance and General Purpose Committee**

1.	Mrs. Mary Munene	- Chairlady
2.	Mr. William K. Wahome	- Director
3.	Dr. Samson Kiplagat Muttai	- Director
4.	Principal Secretary	- National Treasury
5.	Dr. Kipkirui Arap Lang'at	- Managing Director
6.	ICT Expert	- National Treasury (on call)
7.	ICT Expert	- Ministry of Industrialization & Enterprise Development (on call)

d) **Human Resource Committee**

1.	Mrs. Riziki Spana	- Chairlady
2.	Principal Secretary	- Ministry of Industrialization & Enterprise Development
3.	Principal Secretary	- Ministry of Agriculture, Livestock & Fisheries Development
4.	Mr. David Mogere	- Director
5.	Dr. Kipkirui Arap Lang'at	- Managing Director

e) **Audit Committee**

1.	Dr. Samson. K. Muttai	- Chairman
2.	Mr. David Mogere	- Director
3.	Principal Secretary	- National Treasury
4.	Principal Secretary	- Ministry of Industrialization & Enterprise Development
5.	Mrs. Riziki Spana	- Director
6.	Dr. Kipkirui Arap Lang'at	- Managing Director(optional)

COMMUNICATION WITH SHAREHOLDERS

New KCC is committed to ensuring that its sole shareholder being the Government of Kenya is provided with full and timely information regarding the Company's performance. To do this, the Company holds its scheduled Annual General Meeting every financial year during which all relevant information pertaining to the Company's past and future performance and activities is shared.

CORPORATE SOCIAL RESPONSIBILITY

In an age where issues affecting the human condition are top of mind for many consumers, New KCC has made social responsibility a top priority and strives to continually invest in its publics and leave a positive impact on society for continued good will as we work toward realization of our goals as a business and responsible corporate citizens

The company has over the years lent its support to various initiatives including medical camps, local athletic championships, economic empowerment, in-kind donations to various homes for the most vulnerable and other worthy causes.

Our aim: to make Life's goodness everyday! a reality for all.

New KCC Chairman and women from Maasai Kajiado Dairy Co-operative Society at newly installed Bisil milk cooler with capacity of 5,000 liters courtesy of New KCC

CORPORATE SOCIAL RESPONSIBILITY

New KCC at the KASS International Marathon in Eldoret, the cradle of some of Kenya's greatest sporting' icons.

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 20-32

4. DIVIDENDS

The directors do not recommend the payment of dividend in respect of the year ended 30 June 2013.

5. DIRECTORS

The Directors who served during the period 1st July 2012 - 30th June 2013 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
Dr. Kamau Thugge	Appointed on 28th June 2013
Mrs. Beatrice Gathirwa	(Alternate to PS –Treasury)
Dr. Wilson Songa	Appointed on 28th June 2013
E. M. Irungu	(Alternate to PS-Cooperative)
Dr. Khadijah Kassachom	Appointed on 28th June 2013
Julius Kiptarus	(Alternate to PS-Livestock)
David Mogere	Reappointed on 1st January 2011
Riziki Musa Spana	Reappointed on 1st January 2011
Dr. Samson Kiplagat Muttai	Appointed on 7/9/2012
Mary M. W. Munene	Appointed on 1st July 2011
William. W. Kabera	Appointed on 1st July 2011

By Order of the Board

PETER OMBATI
AG. COMPANY SECRETARY

STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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

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

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

Name	Signature	Date
DR. KIPKIRUI ARAP LANG'AT		1 / 10/ 2013
E. MATU WAMAE		1 / 10 / 2013

My Choice Fat free fresh Milk

WHY MY CHOICE IS THE RIGHT CHOICE FOR A HEALTHY LIFESTYLE

My Choice is a totally fat-free option for those who love milk but want to watch their waistlines and may be concerned about other health-related issues. During the My Choice manufacturing process, the fat from whole milk is skimmed off, leaving the nutrients behind. These nutrients remain in a higher concentration than in ordinary whole milk.

My Choice milk is low in calories with no cholesterol and no saturated fats. This makes My Choice the ideal choice for those looking to lose weight. My Choice contains high levels of calcium for strong bones and protein for muscle growth. And it is also a rich source of vitamins (B2 and B12) and minerals. The lactose sugar in My Choice is natural and will not therefore cause sudden increases in blood sugar levels.

INSTRUCTIONS FOR USE

My Choice can be enjoyed in its own as a filling, re-hydrating drink that fortifies your body's vitamin and mineral reserves. You can also use it with cereals as an ingredient in porridge, baking and sweet-making recipes. Last but not least, My Choice is perfect for nursing the sick and can help pregnant women, breastfeeding mothers and the elderly maintain overall good health. For best results, when preparing a beverage with My Choice, simply warm the milk and add the beverage without water. If you must add water, add just half the normal amount to ensure great tasting tea!

Make your choice My Choice. Pick up a pack today

KCC

REGISTERED TRADE MARK

REPORT OF THE AUDITOR-GENERAL ON NEW KENYA CO-OPERATIVE CREAMERIES LIMITED FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of New Kenya Co-operative Creameries Limited set out on page 5 to 17, which comprise the statement of financial position as at 30 June 2013, 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 the financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of materials misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Non-Current Assets

(i) As previously reported, property, plant and equipment balance of Ksh. 2,930,552,894 as at 30 June 2013 includes an amount of Ksh. 1,906,927,500 representing the value of forty nine (49) properties whose title documents were not availed for audit verification.

(ii) Further as previously reported, the property, plant and equipment figure of Ksh. 2,930,552,894 also excludes fifteen (15) parcels of land and buildings which have not been valued.

(iii) The property, plant and equipment figure of Ksh. 2,930,552,894 includes sixteen (16) disputed properties with a value of Ksh. 222,500,000 and registered in the name of third parties. However, the valuation report gives a value of Kshs. 750,000,000 for the disputed properties.

(iv) Five (5) title deeds for property valued at Ksh. 1,104,882,500 are charged and held in a local commercial bank as collateral for an outstanding obligation.

(v) The company has failed to disclose in the financial statements that the Ethics and Anti-corruption Commission had cleared two disputed properties LR No. 37/371 and LR No. 37/22 situated in Upper Hill, Nairobi which had legally been transferred to third parties.

In the circumstances, and in the absence of title deeds and related records, it has not been possible to confirm the ownership status of the respective properties and that property, plant and equipment balance of Ksh. 2,930,552,894 was fairly stated as at 30 June 2013.

2. Trade Receivables and Pre-Payments

Trade receivables and prepayments balance stood at Kshs.1,471,141,843 as at 30 June 2013. However, the following observations have been made-:

(i) Included in this balance are refer to drawer cheques amounting to Ksh.27,750,465, some of which have been outstanding for over one year.

(ii) Further, included in trade receivables and prepayments balance are staff debts amounting to Ksh.22,404,646, out of which an amount of Kshs.9,140,885 relates to staff who left the company although the amount has been fully provided for.

(iii) As previously reported, the balance also includes Kshs.4,948,922 owed by a firm in respect of goods supplied by the Company and the firm has disputed the debt. Arbitration efforts have not achieved any results.

In the circumstances, it has not been possible to confirm the recoverability for trade receivables and prepayments balance of Kshs.1,471,141,844 and that the trade receivables and prepayments balance was fairly stated as at 30 June 2013.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis of Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2013, 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,

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

Edward R. O. Ouko, CBS
AUDITOR - GENERAL

Nairobi

29 April 2014

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Note	June 2013 Ksh	June 2012 Ksh
Revenue	2	6,441,747,368	7,626,675,193
Cost of sales		(5,277,808,029)	(5,817,680,753)
Gross profit		**1,163,939,339**	**1,808,994,440**
Other Operating income	3	22,248,317	13,039,072
Selling and Distribution Costs	4	(696,895,876)	(774,585,445)
Administrative Expenses	5	(694,793,702)	(579,087,489)
Operating profit		**(205,501,923)**	**468,360,579**
Financing costs	6	(179,351,525)	(166,006,087)
Profit/(Loss) before Taxation		(384,853,447)	302,354,492
Tax credit / (expense)	9	150,998,402	(53,577,794)
Profit/(Loss)for the period		**(233,855,045)**	**248,776,698**
Profit/(Loss)per share	10	**(4.28)**	**4.55**

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	2013	2012
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	2,930,552,894	3,335,881,489
Prepaid Leases on land	12	834,735,474	851,846,448
Investments	13	6,456,475	6,456,475
		3,771,744,843	**4,194,184,411**
CURRENT ASSETS			
Inventories	14	1,577,561,136	861,542,304
Receivables and prepayments	15	1,471,141,843	1,132,359,127
Cash and cash equivalents	16	45,599,951	56,171,953
		3,094,302,930	**2,050,073,385**
TOTAL ASSETS		**6,866,047,773**	**6,244,257,796**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	17	547,028,870	547,028,870
Revenue Reserves		1,747,735,424	1,981,590,470
Revaluation Reserves		2,397,979,077	1,855,678,798
		4,692,743,371	**4,384,298,138**
NON-CURRENT LIABILITIES			
Borrowing	18	202,797,245	218,454,366
Deferred tax	19	73,732,280	227,829,223
		276,529,525	**446,283,589**
CURRENT LIABILITIES			
Bank Overdraft	18	798,738,328	225,001,221
Borrowing	18	116,705,163	190,428,802
Payables and accruals	20	905,495,827	843,344,391
Gratuity Senior Staff	21	58,580,227	40,814,986
Tax payable	22	17,255,330	114,086,668
		1,896,774,876	**1,413,676,069**
TOTAL EQUITY AND LIABILITIES		**6,866,047,773**	**6,244,257,796**

The financial statements on pages 20 to 32 were approved and authorized for issue by the board of Directors on 1st of October, 2013 and were signed on its behalf by;

DR. KIPKIRUI ARAP LANG'AT OGW
Managing Director

MATU WAMAE
Chairman

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	Share Capital Ksh	Revaluation reserve Ksh	Revenue reserve Ksh	Total Ksh
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**
Year ended 30th June 2012					
At 1 July 2012		**547,028,870**	**1,855,678,798**	**1,981,590,470**	**4,384,298,138**
Revaluation reserve	(a)	-	542,300,279		542,300,279
Net surplus/ (deficit) for the year		-	-	(233,855,045)	(233,855,045)
At 30th June 2013		**547,028,870**	**2,397,979,077**	**1,747,735,425**	**4,692,743,371**

Notes(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 reversal adjustment of revaluation reserve in the current year, it relates to prior revaluation correction before the current revaluation was undertaken in the financial year 2010/2011.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2013

	Notes	ACTUAL 30th JUNE 2013 KSHS	ACTUAL 30th JUNE 2012 KSHS
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	23	(150,263,017)	570,801,734
Interest paid	6	(161,474,880)	(144,303,708)
Income tax paid	22	(99,929,879)	-
Net cash generated from operating activities		**(411,667,776)**	**426,498,026**
CASH FLOWS TO/FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	11	(83,260,573)	(171,589,918)
Net cash flows used in investing activities		**(83,260,573)**	**(171,589,918)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(89,380,760)	(177,630,553)
Dividend paid		-	-
Investment		-	-
Net cash used in financing activities		(89,380,760)	(177,630,553)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENT		**(584,309,110)**	**77,277,555**
CASH AND CASH EQUIVALENTS AT START OF THE YEAR		(168,829,268)	(246,106,823)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**16**	**(753,138,378)**	**(168,829,268)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013

1. SIGNIFICANT ACCOUNTING POLICIES

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

Changes in accounting policy and disclosures
In preparation of the accounts and in conformity with IAS 1 (Presentation of financial statements) standards the company has incorporated relevant disclosures to the financial statements.
The financial statements are prepared on the historical cost basis of accounting.

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

c). Property, Plant and Equipment and Depreciation
Property, plant and equipment are stated at revalued amounts. The revaluation was conducted by Tysons limited as at 30.11.2010.
The revaluation reserve is being amortized annually at a rate of Kshs.77,820,311 until the earlier of exhausting the amount of the revaluation reserve or another revaluation of assets is undertaken.
Depreciation is calculated on the straight line basis, at annual rates Estimated to write off the carrying values of the assets over their expected useful lives. The rates have been applied to values before revaluation.

The annual depreciation rates in use are:-

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

Freehold land is not depreciated.

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

e). Stocks
Stocks are valued at the lower of cost and net realizable value. Cost comprises expenditure incurred in the normal cause 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 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013 - Cont.

		30th June 2013	30th June 2012
2)	**Revenue**		
	Liquid Milk	4,954,660,468	6,057,015,822
	Other dairy products	1,565,433,334	1,716,151,568
	Less Transport rebates and Discounts	(78,346,434)	(146,492,196)
		6,441,747,368	**7,626,675,194**
3)	**Other Operating Income**		
	Rent	10,328,470	7,286,565
	Other miscellaneous income	11,919,847	5,752,507
		22,248,317	**13,039,072**
4)	**Selling and Distribution Costs**		
	Distribution Costs	347,092,358	401,289,090
	Advertising and Promotion	51,663,814	66,228,640
	Selling Expenses	298,139,704	307,067,715
		696,895,876	**774,585,445**
5)	**Administrative Expenses**		
	Staff Costs	266,625,055	236,295,511
	Director Expenses	10,813,976	14,852,705
	Administrative Expenses	417,354,671	327,939,273
		694,793,702	**579,087,489**
6)	**Finance Costs**		
	Bank Charges and Commission	20,606,649	21,921,270
	Exchange Loss/Gain	(2,730,004)	(218,891)
	Interest on Overdraft	112,072,816	102,905,178
	Interest on Loan	49,402,065	41,398,530
		179,351,525	**166,006,087**
7)	**Profit/(Loss) before tax is arrived at after charging /(Crediting):**		
	Depreciation on Plant, Property and Equipment	427,008,465	433,998,577
	Trade Receivable-Provison for Impairment Losses	50,951,851	3,288,958
	Loss on disposal of plant, property and equipment	871,365	-
	Repairs and Maintenance	19,008,347	16,827,271
	Employee benefits expenses(note 7)	649,612,973	607,157,924
	Directors emoluments	10,813,976	14,852,705
	Auditors Remuneration	1,980,000	1,500,000

		30th June 2013	30th June 2012
8)	**Employee Benefits Expense**		
	Salaries and Wages	641,140,128	556,188,204
	Pension cost- Company Contribution	26,379,131	23,322,382
	National Social Security Fund	3,584,959	4,904,277
	Leave provision	(21,491,245)	(6,410,460)
		649,612,973	**578,004,403**
9)	**Income Tax Expense**		
	Current tax	3,098,541	179,265,258
	Deferred tax	(154,096,943)	(125,687,464)
	Under/(over)provision of deferred tax prior years		
	Tax on business income	-	53,577,794
	Tax on rent income	3,098,541	-
	Total tax expense	**(150,998,402)**	**53,577,794**

10) Earnings per share

Earnings per share is calculated by dividing the profit/(loss) attributable to the owners of the company by the weighted average number of ordinary shares

Basic earnings per share	**(4.28)**	**4.55**

11. PLANT, PROPERTY & EQUIPMENT

	Building Ksh	Machinery & plant Ksh	Equipment & Loose Tools Ksh	Furniture & fittings Ksh	Cans & crates Ksh	Autos & trucks Ksh	Computer & Accessories Ksh	Freehold Land	Capital w.i.p Ksh	Total Ksh
Cost 1st July2011	2,506,731,424	1,731,460,410	33,162,890	12,734,393	88,950,075	373,664,271	213,305,402	150,000,000	201,503,097	5,311,511,962
Additions	1,470,895	21,589,406	837,396	658,386	4,270,408	32,612,315	105,986,355	-	4,164,758	171,589,919
Transfers To Fixed Assets	4,395,274	107,176,852	-	-	-	-	-	-	(111,572,127)	0
Disposals	-	-	-	-	(2,579,301)	-	-	-	-	(2,579,301)
30th june 2012	**2,512,597,594**	**1,860,226,668**	**34,000,286**	**13,392,779**	**90,641,182**	**406,276,586**	**319,291,757**	**150,000,000**	**94,095,728**	**5,480,522,579**
Depreciation 1st July2011	**882,512,368**	**282,205,344**	**9,012,327**	**2,611,857**	**74,097,116**	**295,628,757**	**106,444,707**	**-**	**-**	**1,652,512,476**
Charge	125,420,278	226,579,126	3,550,554	1,625,143	10,245,403	43,250,514	84,036,897	-	-	494,707,915
Disposals	-	-	-	-	(2,579,301)	-	-	-	-	(2,579,301)
Depreciation 30thJune 2012	**1,007,932,646**	**508,784,470**	**12,562,881**	**4,237,000**	**81,763,218**	**338,879,271**	**190,481,604**		**0**	**2,144,641,090**

N.B.V 30.06.2012	**1,504,664,948**	**1,351,442,199**	**21,437,405**	**9,155,779**	**8,877,963**	**67,397,315**	**128,810,153**	**150,000,000**	**94,095,728**	**3,335,881,489**
Cost 1st July2012	2,512,597,594	1,860,226,668	34,000,286	13,392,779	90,641,182	406,276,586	319,291,757	150,000,000	94,095,728	5,480,522,579
Additions	7,538,591	37,946,990	6,456,879	599,136	7,740,832	3,268,029	5,695,524	-	14,014,593	83,260,573
Transfers To Fixed Assets	6,614,091	59,491,506	-	-	-	-	8,794,800	-	(74,900,397)	-
Disposals	-	-	-	-	-	(14,895,191)	-	-	-	(14,895,191)
30th June 2013	**2,526,750,276**	**1,957,665,164**	**40,457,165**	**13,991,915**	**98,382,014**	**394,649,424**	**333,782,081**	**150,000,000**	**33,209,924**	**5,548,887,962**
Depreciation 1st July2012	**1,007,932,646**	**508,784,470**	**12,562,881**	**4,237,000**	**81,763,218**	**338,879,271**	**190,481,604**	**-**	**0**	**2,144,641,090**
Charge	126,025,263	235,245,042	3,918,191	1,729,166	6,590,429	34,544,447	79,665,265	-	-	487,717,803
Disposals	-	-	-	-	-	(14,023,826)	-	-	-	(14,023,826)
Depreciation 30th June 2013	1,133,957,909	744,029,511	16,481,072	5,966,166	88,353,647	359,399,892	270,146,870		0	2,618,335,068
N.B.V 30.06.2013	**1,392,792,367**	**1,213,635,653**	**23,976,093**	**8,025,748**	**10,028,367**	**35,249,532**	**63,635,211**	**150,000,000**	**33,209,924**	**2,930,552,894**

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.

		30th June 2013	30th June 2012
12)	**Prepaid leases on land**		
	Cost		
	1st July 2012	911,089,220	911,089,220
	Revaluation	-	-
	Disposals		
	30th June 2012	**911,089,220**	**911,089,220**
	Depreciation		
	1st July 2012	59,242,772	42,131,799
	Charge	17,110,973	17,110,973
	Disposals		
	30th June 2012	**76,353,745**	**59,242,772**
	Net book values		
	30th June 2013	834,735,474	851,846,448
	1st July 2012	851,846,448	868,957,421
13)	**Investments**	**6,456,475**	**6,456,475**
14)	**Inventories**		
	Raw Materials	25,050,791	18,903,345
	Packaging Materials	185,639,326	215,500,419
	Finished Goods	939,402,013	214,834,154
	Work in Progress	19,814,800	3,581,461
	Stores and Supplies	407,654,206	408,722,925
		1,577,561,136	**861,542,304**
15)	**Receivables & Prepayments**		
	Trade Receivables	939,411,513	759,155,124
	Less :Provision for Bad Debts	(146,184,308)	(141,253,855)
		793,227,205	617,901,269
	Prepayments	535,827	
	Amounts due from related parties(Note 20)	8,563,386	8,563,386
	Other Receivables	668,815,426	505,894,473
		1,471,141,843	**1,132,359,127**

Note:
The difference of Ksh. 8,563,386 between published financial report of 2011/12 and closing receivables balance of 2011/12 as reported in the current year is as a result of reorganized reporting format. The figure has now been included as part of receivables both for the current year and 2011/12.

16)	**Cash and Cash equivalents.**		
	Cash and bank balances	**45,599,951**	**56,171,953**
	For the purposes of the cash flow statement , cash and cash equivalents comprise the following		
	Cash and bank balances as above	45,599,951	56,171,953
	Bank overdraft	(798,738,328)	225,001,221
		(753,138,378)	**281,173,174**
17)	**Share capital**		
	Authorized:200,000,000 Ordinary shares of Kshs. 10 each		
	Issued and fully paid:		
	54,702,887 Shares of Ksh. 10 each	547,028,870	547,028,870
		547,028,870	**547,028,870**

This is the amount paid by the government to KCC 2000Ltd, now for allotment for 10shares of Ksh. 54,702,887 each.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2013 - **Cont.**

18) Borrowings

Non-current		
Bank Borrowings	**202,797,245**	**218,454,366**
Current Portion		
Bank Overdraft	798,738,328	225,001,221
Bank Borrowings	116,705,162	190,428,802
	915,443,491	**415,430,023**
Total Borrowings	**1,118,240,737**	**633,884,389**

19) Deferred Tax

Balance as at 1st -July 2012	227,829,223	353,516,687
Deferred tax movement current year	(154,096,943)	-
	-	(125,687,464)
Prior year adjustment at close of current year	**73,732,280**	**227,829,223**

20) Payables and Accrued Expenses

Trade payables	783,435,563	639,547,278
Amounts due to related parties(Note 24)	2,995,884	2,995,884
Accrued expenses and other payables	119,064,380	200,801,229
	905,495,827	**843,344,391**

Note:

The difference of Ksh. 2,995,884 between published financial report of 2011/12 and the closing balances of 2011/12 as reported in the current year is as a result of reorganized reporting format. The figure is now included as part of payables for both the current year and the financial year 2011/12.

21) Gratuity for Senior Management staff	58,580,227	40,814,986

22) Taxation Payable

Taxation Payable as at 1-7-2012	114,086,668	(65,178,590)
Current tax	3,098,541	179,265,258
Deffered Tax		
Under/(Over)Provision of Deffered Tax Prior Year		
Total Tax	117,185,209	114,086,668
Less Prior Year Tax &Current Year Installment Paid	(99,929,879)	-
Tax Payable	**17,255,330**	**114,086,668**
Taxes Paid During The Year		
Final Tax 2011/2012	57,131,605	-
1st Installment of 2012/2013	42,798,274	-
2nd Installment of 2012/2013		
3rd Installment of 2012/2013		
4th Installment of 2012/2013	-	-
Total	**99,929,879**	**-**

23) Cash Generated from Operations

Reconciliation of profit before income tax to cash generated from operations

Profit(Loss) before interest expense	**(223,378,567)**	**446,658,200**
Adjustments for:		
Depreciation on property, plant and equipment	427,008,465	433,998,577
Revaluation reserve amortization	620,120,590	
Loss on disposal of property, plant and equipment	871,365	-
Changes in Working Capital:		
Inventories	(716,018,832)	255,530,865
Receivables and prepayments	(338,782,716)	(135,249,974)
Payables and accrued expenses	79,916,677	(430,135,934)
Cash generated from operations	**(150,263,017)**	**570,801,734**

24) Related Party Transactions

NKCC Limited is incorporated under the Companies Act with 100% Government of Kenya Shareholding.

i) Outstanding balances arising from Sale and purchase of goods/services.

Amount due from related parties:		
Kenya Dairy Board	**8,563,386**	**8,563,386**
Amount due to related parties:		
Govt of Kenya	**2,995,884**	**2,995,884**

25) Contingent liabilities

(i) As at 30th June 2013 the company had given guarantees amounting to Ksh. 21,400,341.72 to various Companies and individuals.

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

26) Extra- Ordinary Item

An industrial fire outbreak at our Powder factory in Sosiani on 15th June 2012 resulted in damage to equipment. The factory has seen been rehabilitated at a cost of Ksh. 52,177,120 and is now complete and is back to operations.. The Company lodged claim with the insurers for both material damage and the loss of profits. NKCC is currently awaiting compensation on the loss of profit at amounts to be underwritten by the insurers. The factory shutdown, has contributed to the decline in revenue. The loss from this event is part of the business loss recorded by the company in the financial statement

NEW KENYA CO-OPERATIVE CREAMERIES LTD

KCC
REGISTERED TRADE MARK

RANGE OF PRODUCTS

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KEBS
FOOD SAFETY MANAGEMENT EXCELLENCE

KEBS
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