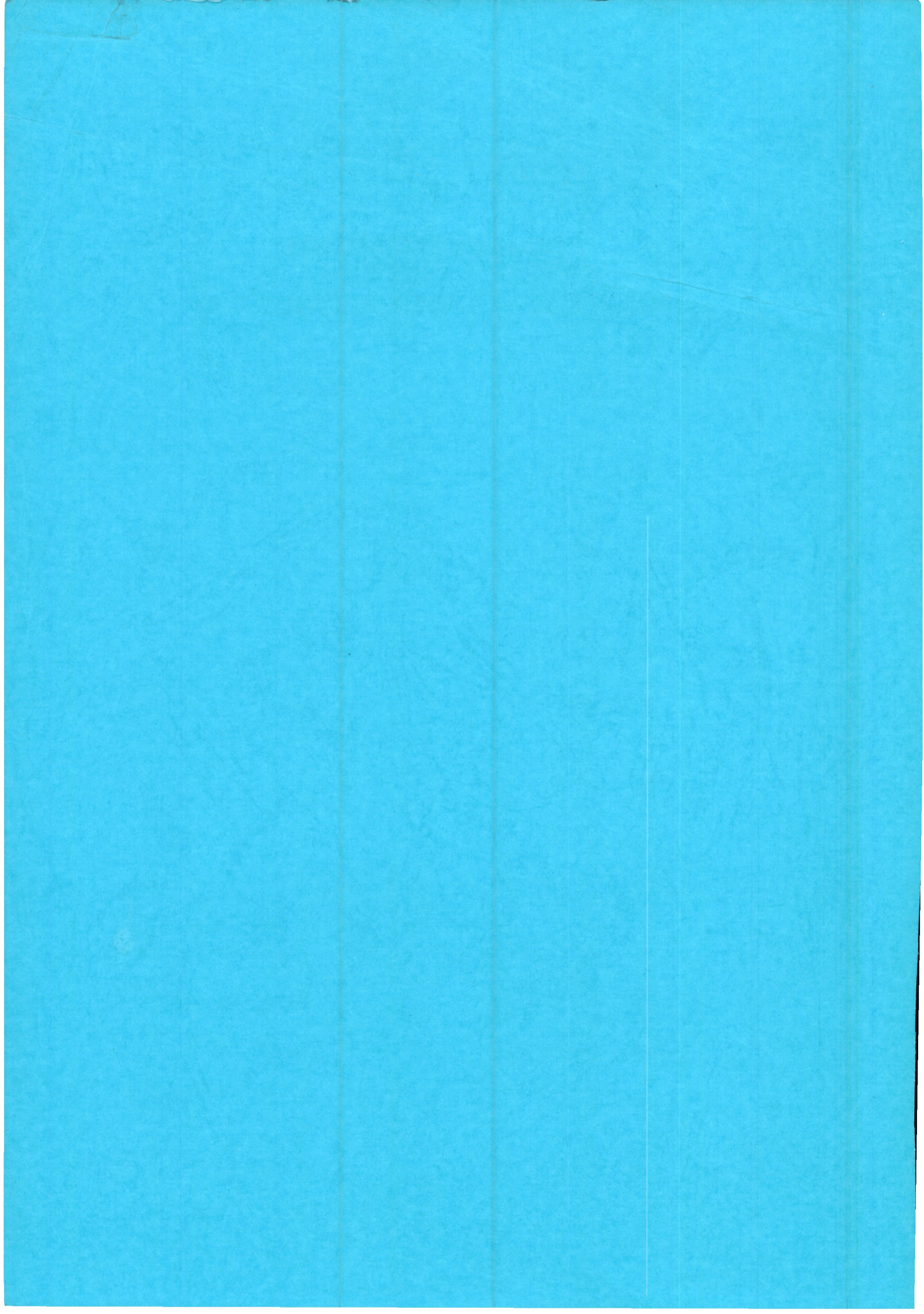


KIPCHABO TEA FACTORY LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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CONTENTS	PAGE
Chairman's Statement	iii
Corporate Information	v
Report of the Directors	vi
Statement of Directors Responsibilities	vii
Report of the Auditors	1-2
Financial Statements:	
Statement of Comprehensive Income	3
Statement of Financial position	4
Statement of Changes in Equity (General Fund)	5
Statement of Cash flow	6
Notes to the Financial Statements	7-9

CHAIRMAN'S STATEMENT

General

Kipchabo Tea Factory Limited is a wholly owned subsidiary of Nyayo Tea Zones Development Corporation. The factory has contributed to the growth of the Corporation by enhancing value addition and hence achievement of the mandate of environmental conservation. I am delighted to present to you the annual report and financial statements of Kipchabo Tea Factory Ltd for the year ended 30 June 2012. The accounts were audited by the Auditor General and received an unqualified opinion. The factory started operations on a test basis in July 2010 and by now its fully operational producing CTC black teas for local and export markets. The factory is in the process of obtaining ISO 22000 which will go along way in improving the processed tea market share.

Financial Results

Being the second year in operation, the factory reported a profit of Ksh. 24 million before finance charges and a Net Profit of Ksh. 2 million after charging finance costs and recognizing interest income. However, the factory is expected to report higher profits as its tea continue registering good prices in the Mombasa Tea Auction and also being in a position to operate to full capacity. Total turnover amounted to Ksh. 242.6 million, 98% of which was traded at the Mombasa Tea Auction.

Operations

Total green leaf processed at the factory was 3,936,149 kgs which produced 934,381 kgs of made tea, at a conversion factor of 23.74%. The factory sourced all its green leaf from its parent corporation (NTZDC), specifically from four (4) tea zones namely North Central Nandi, South Central Nandi, Kakamega and Kaptarakwa.

Future outlook

The Company has great plans for the factory expansion and growth. Installation of the second line has started with the first phase being the installation of weathering troughs whose work is on-going. Once the second line is complete, it will enable the factory to process all its green leaf without diverting to other factories during the high season. In the next financial year the factory is projected to receive and process more green leaf once the young tea matures. The factory also has plans to expand its local market through value addition and targeted marketing strategies to increase the sales. The Mombasa Tea Auction prices have been good and we hope this will translate to better results in the coming years.

Appreciation

I take this opportunity to appreciate the valuable support given by our stake holders namely the customers, suppliers, bankers and the local community. I also appreciate the support by the Board of Directors, management, staff and the Government for being committed to the Company's affairs. We assure you of our commitment to growing and enhancing shareholder value.



CHAIRMAN

CORPORATE INFORMATION

Directors:

Mr. Kipkorir Sang – Chairman

Dr Anne Kinyua - Managing Director (Left 18 June 2012)

Ms. Angeline M. Savala – Member (Left 18 June & re-appointed 17 Sep 2012)

Ms. Faith Jepkemboi Boinett – Member (Left 18 June & re-appointed 17 Sep 2012)

Mr. John N. M. Nyaga – Member (Left 18 June & re-appointed 17 Sep 2012)

Mr. Moses Kipkemboi Cheboi – Member (Left 18 June 2012)

Mr. Solomon B. A. Muthamia – Member

Mr. Thomas E. Nyongesa - Member, MOA Representative

Mr. Daniel Karaba – (appointed 9 December 2011)

Registered Office and Principal place of Business:

Nyayo House- 11th Floor

Kenyatta Avenue

P.O. Box 48552 - 00100

NAIROBI

Auditors:

Auditor-General

Anniversary Towers

P.O. Box 30084-00100

NAIROBI

Bankers:

Kenya Commercial Bank Ltd

Kipande House Branch

P.O. Box 30012

NAIROBI

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30 June 2012, which disclose the state of affairs of the company.

Incorporation

The Company is registered in Kenya under the companies Act (Cap.486) registration certificate number CPR/2010/33168. It is a wholly owned subsidiary of Nyayo Tea Zones Development Corporation which is registered in Kenya through a Gazette notice LN265/1986 as a parastatal and is resident in Kenya.

Principal Activity

The Company's principal activity is processing of CTC black Teas from green leaf. The green leaf is produced from the tea buffers established in the gazetted forests. This enhances conservation through value addition.

Results

	2011/2012 (Ksh)	2010/2011(ksh)
Profit (Loss) before tax	<u>2,075,611</u>	<u>(6,542,741)</u>

Dividends

The directors do not recommend payment of a dividend.

Directors

The directors who held office during the year and to date of this report are shown on page (v)

Auditors

The Auditor-General is responsible for the statutory audit of the company's books of account.

By order of the Board



DIRECTOR
NAIROBI

16/11/2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The State Corporations Act requires the directors to prepare financial statements for each year, which give a true and fair view of the state of affairs of the company and of its operating results for that year. It also requires the directors to ensure that the corporation keeps a set of proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the legal requirements.

The directors are of the opinion that the financial statements give a true and fair view of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Director *Chyaga*

Date *16-11-12*

Director *[Signature]*

Date *16-11-12*

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

REPUBLIC OF KENYA

P.O. Box 30084-00100
NAIROBI



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KIPCHABO TEA FACTORY LIMITED, A SUBSIDIARY OF NYAYO TEA ZONES DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE 2012

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kipchabo Tea Factory Limited set out on pages 3 to 9, which comprise the statement of financial position as at 30, June 2012, and the statement of comprehensive income, statement of changes in equity and the 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.

Managements 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 audit opinion.

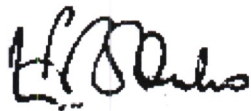
Opinion

In my opinion, 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 of 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
AUDITOR- GENERAL

Nairobi

5 December 2012


Kipchabo Tea Factory Ltd
Statement of Comprehensive Income
For the year ended 30 June 2012

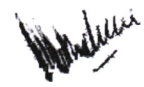
	Notes	2011/2012 Kshs	2010/2011 Kshs
Turnover	2 (a)	242,660,303	110,106,948
Cost of Production	2 (b)	<u>(104,309,108)</u>	<u>(35,269,344)</u>
Gross Profit		138,351,195	74,837,604
Administrative Expenses	2 (c)	(44,813,878)	(13,730,396)
Other Operating Expenses	2 (d)	<u>(69,474,333)</u>	<u>(59,196,745)</u>
Operating Profit Before finance Costs		24,062,984	1,910,463
Finance Costs	2 (e)	<u>(24,106,588)</u>	<u>(8,453,204)</u>
Profit before Exceptional Item		(43,604)	(6,542,741)
Other income	2(f)	<u>2,119,215</u>	<u></u>
Net profit/(loss) for the year		2,075,611	(6,542,741)

KIPCHABO TEA FACTORY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 June 2012

	Notes	2011/2012 Ksh.	2010/2011 Ksh.
<u>FIXED ASSETS</u>			
Property, Plant & Equipment	3	701,822,779	679,252,296
<u>CURRENT ASSETS</u>			
Inventories	4	42,246,744	34,582,645
Trade Receivables	6	7,204,732	17,771,447
Cash & Bank Balances	5	62,201,270	60,934,285
TOTAL CURRENT ASSETS		111,652,745	113,288,377
<u>CURRENT LIABILITIES</u>			
Trade & Other Payables	7	55,712,991	86,550,422
TOTAL CURRENT LIABILITIES		55,712,991	86,550,422
NET CURRENT ASSETS		55,939,754	26,737,955
TOTAL NET ASSETS		757,762,533	705,990,252
<u>FINANCED BY</u>			
Ordinary Shares	8	100,000	100,000
Share Premium	8	762,129,663	712,432,993
Accumulated Loss	8	(4,467,130)	(6,542,741)
TOTAL CAPITAL		757,762,533	705,990,252

The financial statements were approved by the Board of Directors on 16.11.2012 and were signed on its behalf by:-


 DIRECTOR


 DIRECTOR

STATEMENT OF CHANGES IN EQUITY

	Accumulated Fund	Revenue Reserves	Total
Note	Kshs	Kshs	Kshs
Shareholders Funds	712,432,993		712,432,993
Net Profit/(Loss) for the year	<u> </u>	<u>(6,542,741)</u>	<u>(6,542,741)</u>
As at 30 June 2011	<u>712,432,993</u>	<u>(6,542,741)</u>	<u>705,890,252</u>
Shareholders Capital injection	49,696,670		49,696,670
Net Profit/(Loss) for the year	<u> </u>	<u>2,075,611</u>	<u>2,075,611</u>
As at 30 June 2012	<u>762,129,663</u>	<u>(4,467,129)</u>	<u>757,662,533</u>

STATEMENT OF CASHFLOWS

		2011/2012	2010/2011
	Note	Kshs	Kshs
Cashflow from Operating Activities			
Operating Profit (Loss)		2,075,611	(6,542,741)
Depreciation of Fixed Assets		<u>38,144,663</u>	<u>33,280,697</u>
Profit Before Working Capital Changes		<u>40,220,275</u>	<u>26,737,956</u>
(Decrease) / Increase in Debtors & Prepayments Increase / (Decrease) in Creditors & Accruals		10,566,715	(17,771,447)
		(30,837,431)	86,550,422
Increase in Stock		<u>(7,664,099)</u>	<u>34,582,645</u>
Net Changes in working Capital		<u>(27,934,814)</u>	<u>103,361,620</u>
Net Cash Generated from Operating Activities		<u>12,285,460</u>	<u>130,099,576</u>
Cashflows used in Investing Activities			
Purchase of Fixed Assets		<u>(67,639,849)</u>	<u>(147,928,615)</u>
Net Cash (Used) in Investing Activities		<u>(67,639,849)</u>	<u>(147,928,615)</u>
Cashflows (Used) in Financing Activities			
Equity Contribution		<u>56,621,373</u>	<u>78,763,324</u>
Net Cash from/(Used) in Financing Activities		<u>56,621,373</u>	<u>78,763,324</u>
Net Increase in Cash and Cash Equivalents		<u>1,266,985</u>	<u>60,934,285</u>
Movement in Cash and Cash Equivalents			
At 1 July 2011		60,934,285	-
Increase/(Decrease) in the year		1,266,985	60,934,285
At 30 June 2012	5	62,201,270	60,934,285

NOTES TO THE ACCOUNTS

1. Accounting Policies

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies adopted are set out below.

(a) Basis of Accounting

The financial statements have been prepared historical cost basis.

(b) Revenue Recognition

Income is recognised as revenue when sales are made and not when cash is received.

(c) Property, Plant, Equipment and Depreciation

Property, Plant and Equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight line basis, at annual rates estimated to write-off the assets over their expected useful lives.

The annual depreciation rates in use are:-

Buildings	2.0%
Machinery	6.65%
Furniture & Fixtures	12.5%
Office Equipment	20%
Computers & Electronic typewriters	33.75%
Motor Vehicles	20%

2011/2012

2 (a) Turnover

	Kshs	
Sale of Finished Tea	242,660,303	110,106,948
	242,660,303	110,106,948

2 (b) Cost of Production

Opening Stock	34,582,645	-
Green Leaf Intake	94,472,576	69,851,989
Other factory operating expenses	17,500,631	-
Less Closing Stock	(42,246,744)	(34,582,645)
	104,309,108	35,269,344

2 (c) Administrative Expenses

Salaries and wages	23,664,055	12,535,212
Advertising Marketing & Publicity	1,722,409	1,188,450
Bank charges	189,936	6,734
Insurance	168,699	813,281
Other administrative expenses	19,068,778	-
	44,813,878	14,543,677

2 (d) Other Operating expenses

Factory running expenses	7,755,464	15,649,811
Light & Water	18,536,815	6,927,670
Repairs & Maintenance	360,413	1,133,888
Security	2,173,233	1,391,397
Depreciation	38,144,663	33,280,697
Exchange Loss/Gain	2,503,746	-
	69,474,333	58,383,464
	114,288,211	72,927,141

Exchange loss relates to Trade Receivables (Bicorn Ltd) and cash balance (CFC Stanbic Bank) denominated in USDollars which were translated to KES

2 (e) Finance Costs

Interest on EADB Loan	24,106,588	8,453,204
	24,106,588	8,453,204

2 (f) Other Income

Interest Income	1,789,215	-
Miscellaneous Income	330,000	-
	2,119,215	-

Kipchabo Tea Factory Ltd
 Reports and Accounts for the Year Ended 30 June 2012

Note 3

	Land	Factory Buildings	Factory Machinery	Furniture & Fixtures	Office Equipment	Computers & Assessories	Motor Vehicles	Total
	Kshs			Kshs	Kshs	Kshs	Kshs	Kshs
			6924703.3					
Cost								
As at 30 June 2011	8,044,682	397,721,943	278,926,586	3,749,997	1,204,795	11,064,841	11,820,150	712,532,993
Transfer from Nyayo Tea Zone			49,696,670					49,696,670
Additions	-	-	5,056,476	-	-	-	5,962,000	11,018,476
Disposal								-
30 June 2012	8,044,682	397,721,943	333,679,731	3,749,997	1,204,795	11,064,841	17,782,150	773,248,139
Acum Depm 30th June 2011	-	7,954,439	18,517,758	468,750	240,959	3,734,762	2,364,030	33,280,697
Charge for the year		7,954,439	22,189,702	468,750	240,959	3,734,384	3,556,430	38,144,663
On Disposal								-
30 June 2012	-	15,908,878	40,707,460	937,499	481,918	7,469,145	5,920,460	71,425,360
Net Book Value								
30 June 2012	8,044,682	381,813,066	292,972,271	2,812,498	722,877	3,595,695	11,861,690	701,822,780
30 June 2011	8,044,682	389,767,504	260,408,828	3,281,247	963,836	7,330,079	9,456,120	679,252,297

NOTES TO THE ACCOUNTS -Continued	2011/2012	2010/2011
	Kshs	Kshs
3. Property Plant and Equipment		
Transfer from Nyayo Tea Zones(NTZDC) of KES 49,696,670 relates to assets purchased directly by the parent company(NTZDC) or financed through East African Development Bank(EADB). The Loan with EADB is in the books of Nyayo Tea Zones Corporation		
4. Inventories		
Finished Tea at Mombasa Warehouse	29,005,600	29,529,553
Finished Tea at Kipchabo Factory	6,140,540	5,053,092
Fuelwood at Kipchabo factory	7,100,604	-
	42,246,744	34,582,645
5. Cash & Cash Equivalents		
KCB Current Account	24,270,183	57,072,910
CFC Stanbic Bank	2,931,087	3,861,375
KCB Fixed Deposit	35,000,000	-
	62,201,270	60,934,285
6. Trade Receivables		
Bicorn Limited	5,187,925	16,972,307
Other Debtors	2,016,807	799,140
	7,204,732	17,771,447
7. Trade and other Payables		
Nyayo Tea Zones Devt. Corporation - Green leaf	24,881,820	39,645,957
Nyayo Tea Zones Devt. Corporation - Advances	27,776,671	46,904,465
Accruals	3,054,500	-
	55,712,991	86,550,422
8. Shareholders Funds		
Authorised No. of Shares - 5,000 Shares		
Type of Shares - Ordinary Shares		
Par value per Share Ksh. 20 each		
Total No. of Shares Subscribed - 5,000 Shares		
Value of subscribed Shares - Ksh 100,000	100,000	100,000
Share Premium	762,129,663	712,432,993
Deficit brought forward	(6,542,741)	-
Profit for the year	2,075,611	(6,542,741)
	757,762,533	705,990,252

The additional Share Premium of Ksh. 49,696,670 in the year relates to capital injection by parent company (Nyayo Tea Zones) to finance factory machinery

