

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
AGRO-CHEMICAL AND FOOD COMPANY
LIMITED

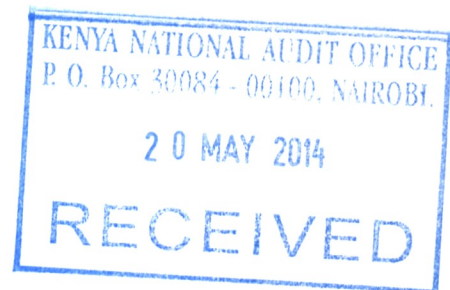
FOR THE YEAR ENDED
30 JUNE 2013



AGRO-CHEMICAL AND FOOD COMPANY LTD

ANNUAL REPORT

AND



FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30TH JUNE, 2013



VISION AND MISSION STATEMENTS

OUR VISION

To be the most efficient producer and preferred supplier of quality spirits, yeast and related products in the region for local and international markets.

OUR MISSION

To produce a wide range of spirits, yeast and related products of world class quality using appropriate and efficient technology, satisfying customer needs, giving maximum returns to shareholders and meeting employee aspirations.





CHAIRMAN'S REPORT FOR THE YEAR ENDED 30TH JUNE 2013

PHOTO

It is my pleasure to present the Annual Report and Financial Statements of ACFC for the year ended 30th June 2013.

SUMMARISED OPERATING RESULTS

The Company's operations mainly depend on the quantity of molasses supplied by sugar companies. The Company received 76,297 (2011/2012: 69,900) tons of molasses against a budgeted quantity of 73,000 tons. I wish to thank management for the efforts and strategies put in place to ensure that the Company got adequate supply of molasses and the sugar factories for ensuring availability of the product.

The Company produced 16.231 million (2011/2012: 13.945 million) litres of alcohol against budgeted quantity of 15.00 million litres. Active Dry Yeast (ADY) production was 768 tons (2011/2012: 696 tons) against a target of 1,000 tons. The production of ADY was below the target by 232 tons mainly due to adverse effects of Alcoholic Drinks & Control Act leading to inadequate demand. Wet Yeast production was 1,024 tons (2011/2012: 1,067 tons) against a target of 1,200 tons representing a decrease of 176 tons below the target.

The Company realized a turnover of Kshs. 1,897.711 million against the budget of Kshs.1, 832.800 million recording the highest turnover since inception of the Company. I wish to register my appreciation to the management for achieving this milestone

The highlights of the overall operating results for the year under review compared to budget are as tabulated below:



FINANCIAL HIGHLIGHTS

PRODUCTION	2012/2013			2011/2012			2010/2011	
	BUDGET	ACTUAL	% ACTUAL BUDGET	BUDGET '000'	ACTUAL '000'	% Actual Budget	BUDGET	ACTUAL
Alcohol (Lts. 000)	15,000	16,230	108 %	13,500	13,945	103%	13,700	12,838
Yeast (Tons)	1,000	768	77 %	1,000	696	70%	1,300	952
Wet Yeast (Tons)	1,200	1,024	85%	1,200	1,067	89%	850	1,084
SALES:								
Alcohol (Lts 000).	15,000	16,378	109%	13,500	13,811	102%	13,700	13,572
Yeast(Tons)	1,000	750	75%	1,000	725	73%	1,300	925
Wet Yeast (Tons)	1,200	1,024	85%	1,200	1,067	89%	850	1,083
FINANCIAL INDICATORS:								
Sales Turnover (Kshs. Millions)	1,832.800	1,897.711	104%	1,498.80	1,599.041	107%	1,405.45	1,410.758
Other Income (Kshs. Millions)	24.500	64.040	261%	30.600	68.020	222%	35.600	30.369
GROSS REVENUE (Kshs. million)	1,857.300	1,961.751	106%	1,529.400	1,667.061	109%	1,441.05	1,441.127
Operating Profit Before Interest (Kshs. Millions)	312.268	338.591	108%	224.267	191.508	85%	176.656	289.004
Interest on loans	354.271	324.244	92%	353.029	343.457	97%	317.940	313.637
Net Profit (Loss)	(42,003)	14.347	-	(128.762)	(151.949)	85%	(141.284)	(24.633)

Total sales turnover for the year under review was Kshs.1, 897.711 million compared to Kshs. 1,599.041 million in the previous year. Gross Revenue includes sales turnover and other income i.e. interest on short-term deposits, sale of scrap and rent paid by employees. The gross revenue for the period was Kshs.1, 961.751 million compared to Kshs.1, 667.061 million last year. Operating profit before loan interest and exchange losses was Kshs.338.591 million compared to Kshs.191.508 million in 2011/2012. The increase in operating profits was mainly attributed to increased sales and reduction of expenses during the year. After charging loan interest of Kshs. 324.244 million (2011/2012: 343.457 million) the Company registered an overall net profit of Kshs. 14.347 million compared to net loss of kshs.151.949 million. There was no exchange gain or loss in the current year (2011/2012



Kshs.478.420 million) since the foreign denominated loans were converted into Kenya shillings as at June 30, 2012.

ACKNOWLEDGEMENT

May I acknowledge the commitment and dedication of our employees who have continued to perform their duties with skill, loyalty and team spirit to enable the Company achieve such a milestone. We have also continued our active participation in various projects as per our Corporate Social Responsibility (CSR) policy. During the year the Company completed the construction of twenty cubical bathrooms for Koru Girls' secondary school which was started in the last financial year.

May I also acknowledge the vital role played by the Ministry of Agriculture, Livestock & Fisheries (State Department of Agriculture), The National Treasury, Kenya Sugar Board and Sugar companies for their continued guidance and support.

FUTURE PROSPECTS

The future prospects depend on the quantity of molasses that the Company can obtain from sugar companies. In line with the Company's long term strategic plan on product diversification the Company intends to complete the construction of a carbon dioxide plant and a spirit bottling plant which will go a long way in improving the Company profitability. Our continued appeal to the sugar companies for affordable molasses price remains on course. I am looking forward to seeing days when our Company will attain an exemplary performance and declare dividends to the shareholders. When the Company is finally privatized and strategic alliances entered into with sugar companies, this dream will surely be realized.

CONCLUSION

Finally, my sincere appreciation goes to all my colleagues on the Board for their tireless devotion and valued guidance. I look forward to similar enthusiastic co-operation in the future. I also wish to extend my sincere appreciation to the management and the staff of ACFC for their efforts and feel confident that they will work even harder and smarter to improve performance of the Company in the coming years.

DR. A.K. TUIMUR
AG. CHAIRMAN



DIRECTORS' REPORT

The Directors present their report and the financial statements for the year ended 30th June 2013.

Principal Activities:

The Company produces Rectified Spirit, Extra Neutral Spirit, Industrial Methylated Spirit, Active Dry Yeast and fresh Wet yeast from sugar cane molasses for both local and export markets.

Results:

During the year the Company produced 16.230 million litres of alcohol, 768 tons of Active Dry Yeast, 1,024 tons of Wet Yeast and realized a turnover of Kshs.1,897.711 million (2011/2012: 1,599.041 million). The operating profit before interest on loans and exchange losses was Kshs.338,590,856 (2011/2012: Kshs.191,508,069). However after charging interest on loan of Kshs.324,243,748 (2011/2012: Kshs.343,457,201), the profit for the year carried forward is Kshs.14,347,108 (2011/2012: Kshs.326,471,143 after charging a exchange gain of Kshs.478,420,275). There was no exchange gain in the current year since the foreign denominated loans were converted into Kenya Shillings as at June 30, 2012.

Dividends:

The Directors do not recommend the payment of dividends in view of the cumulative loss position.

Auditors:

The Auditor-General will continue in office in accordance with section 12 of the Public Audit Act, 2003.



COMPANY INFORMATION

Directors as at 30th June, 2013

ADC

ADC

ICDC

ICDC

IIC

IIC

Ministry of Agriculture, Livestock & Fisheries
(State Department of Agriculture)
The National Treasury

Mr. William K. Kirwa (Chairman), Retired on
June 19, 2013.

Dr. Andrew Tuimur

Mr. Joseph C. Mwaura

Mr. Dismas J.O. Oyieko, HSC

Mr. Suresh C. Sharma

Mr. Nanalal P. Sheth, Alternate to Mr. M.N. Mehta

P.S. (Alternate: Mrs Bibiana Walela)

P.S. (Alternate: Mrs. Beatrice Gathirwa)

Resident Director & Chief Executive:

Mr. Ashok Agrawal

Registered Office:

Jeevan Bharati Building, 7th Floor
Harambee Avenue
P.O. Box 41175-00100
NAIROBI

Managing Agent:

Mehta Group Management Limited
Peponi Plaza, 1st Floor
Peponi Road
P.O. Box 14692-00800 Westlands
NAIROBI

Advocates:

Staussi & Asunah Advocates
P.O. Box 3140-40100
KISUMU

Theuri Wanjohi & Co. Advocates
P.O. Box 6502-00100
NAIROBI

ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30TH JUNE 2013



AGRO CHEMICAL & FOOD COMPANY LTD

Auditors:

Auditor-General
Kenya National Audit Office
P.O. Box 30084-00100
NAIROBI

Bankers:

National Bank of Kenya Limited
Barclays Bank of Kenya Limited
Kenya Commercial Bank Limited

Company Secretary:

Mr. Solomon O. Awino, CPS (Kenya)
P.O. Box 18-40107
MUHORONI

Senior Executives:

Mr. Edwin O. Owiti	-	Financial Controller
Mr. Caleb O. Oguya	-	Marketing Manager
Mr. Joseph N. Njoroge	-	Works Manager



CORPORATE GOVERNANCE STATEMENT

Agro-Chemical and Food Company Limited (ACFC) is committed to good corporate governance and as such conducts its operations in accordance with internationally accepted principles of good corporate governance. The Company will provide timely and reliable information on its activities, structure, financial situation and performance to all shareholders.

Role and Responsibilities of Board of Directors

The Board formulates policies and strategies that enhance transparency and accountability. The Board provides the overall strategic guidance to the Company and is accountable to shareholders and other stakeholders. The day to day management of the Company has been delegated to the Resident Director & Chief Executive (RD&CE). However the Board retains the overall responsibility for the Company's performance in financial, compliance, monitoring and operational areas. Specific responsibilities of the Board include:

- a. reviewing and approving strategic plans, internal control and compliance, codes of conduct, financial reporting and legal compliance
- b. reviewing and approving major capital expenditure
- c. approving the Company's financial and accounting policies and financial statements

Board Composition:

The Board of ACFC is composed of nine directors representing the three shareholders vis, ADC, two directors, ICDC, two directors, IIC, three directors, representative of P.S, Ministry of Agriculture, Livestock & Fisheries (State Department of Agriculture) and P.S., The National Treasury. The RD& CE plus representative of Inspector-General (Corporations), Office of the Deputy President, also attend Board meetings. Therefore, the Company Directors are not elected but are representatives of institutions by virtue of their respective offices.

As per the provisions of the Memorandum and Articles of Association of the Company, the Board Chairman is the Managing Director of ADC, while the management is by The Mehta Group, through a management agreement with the Company.

The Chairman is responsible for managing the Board and providing leadership to the Company while the RD&CE is responsible to the Board for running of the Company in accordance with instructions given by the Board. The RD&CE implements Board decisions and instructions with the assistance of the management team.



Board Meetings:

The Board meets regularly and at least four times a year to, amongst other things, agree on the Company's objectives and strategies to realize the objectives, review performance against agreed targets, consider and approve the annual and interim statements and to discuss other matters of strategic importance to the Company. Senior management of the Company attend Board meetings by invitation, whenever necessary.

Board Committees:

For effective running of the affairs of the Company, the Board has delegated part of its responsibilities to standing committees. The Committees operate under clearly defined mandates which spell out their responsibilities, scope of authority and procedures for reporting to the Board. The Board has three standing committees, viz:

a) Audit Committee

The purpose of this Committee is to review the systems established to ensure sound public financial management and internal controls, as well as compliance with policies, laws, regulations, procedures, plans and ethics.

b) Staff and Finance Committee

The purpose of the Committee is to oversee staff and finance matters of the Company, which involves employees' conditions and remuneration policy, budgets, procurement and performance contracts.

c) Technical Committee

The purpose of the Committee is to assist the Board in developing and managing a framework for implementing the Company's core functions of producing and marketing its products by providing adequate resources and ensuring that such resources are effectively utilized in line with the Company's mandate.

Conduct of Business and performance reporting:

The business of the Company is conducted in accordance with carefully formulated strategies, budgets and business plans which set out clear objectives. Performance against the objectives is reviewed and discussed by the management team. Any issues arising from these objectives are discussed by the Board Committees, which are ultimately reported to the Board. This is aimed at ensuring close monitoring of performance trends, forecasts as well as actual performance against budgets.



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of each financial year and the operating results of the Company for that year. It also requires that the Directors to ensure that the company keeps proper accounting records which disclose, with reasonable accuracy at any one time the financial position of the Company. They are also responsible for safe guarding the assets of the Company.

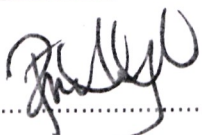
The Directors are responsible for the preparation and fair presentation of these financial statements. This responsibility includes; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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

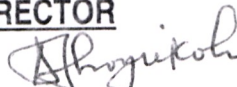
Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

This statement was approved by the Board of Directors on 25th September, 2013 and signed on its behalf by:

ANDREW .K. TUIMUR
AG. CHAIRMAN

Date.....

DISMAS J. OYIEKO
DIRECTOR


Date.....2.4.14.....

REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON AGRO-CHEMICAL AND FOOD COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Agro-Chemical and Food Company Limited set out on pages 11 to 32, 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 these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) 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 material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An

audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Going Concern

As at 30 June 2013, the company's net profit reduced by Kshs.312,124,035 from Kshs.326,471,143 in year 2011/2012 to Kshs.14,341,108 in current year under review. The current liabilities of Kshs.8,473,805,639 as at 30 June 2013 exceeded the current assets of Kshs.1,192,421,762 by Kshs.7,281,383,877. Further, the financial statements reflect accumulated deficit of Kshs.6,900,726,232 which has contributed to a negative total equity of Kshs.5,122,336,203 as at 30 June 2013. The company is therefore technically insolvent and its continued existence as a going concern is dependent upon the continued financial support from the Government and trade payables.

2. Contingent Liability

As discussed in Note 24 (ii) to the financial statements, and as reported in the previous years, there is a pending tax demand of Kshs. 229,517,721 from the Kenya Revenue Authority which is not yet finalized. There is also pending demand of Kshs.634,644,435 from Kenya Revenue Authority in respect of withholding tax assessment on interest paid to the Treasury over a period of time. The matter is currently in court. The outstanding liabilities have not been recognized in the financial statement. Whereas the Directors are of the opinion that this demand will be vacated, it is not clear when and how the demand will be vacated and not crystallize into a liability. It has not however been possible to ascertain the extent of the liability that may arise as a result of these demands.

3. Trade and Other Receivables

As reported in the previous year, the trade and other receivables balances of Kshs.317,938,516 includes an amount of Kshs.99,768,413 owed by Kenya Revenue Authority, out of which a figure of Kshs.8,263,884 is under dispute. Also, the amount includes a long outstanding amount of Kshs.11,849,741 whose recoverability remains doubtful. Any additional provision that would have been necessary to cover these uncertainties has not been included in the financial statements.

Qualified Opinion

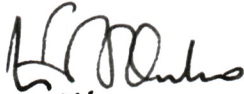
In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2012, and of its financial performance and its cash flows for the year then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

International Financial Reporting Standards and comply with the Companies Act, Cap. 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REPORTING 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 and statement of comprehensive income are in agreement with the books of account.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

5 May 2014



STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2013

	Notes	2013 Kshs	2012 Kshs
Revenue	5	1,897,710,567	1,599,041,200
Cost of Sales	6	1,330,356,859	1,197,089,816
Gross Profit		567,353,708	401,951,384
Other Income	7	64,039,996	68,020,519
		631,393,704	469,971,902
Costs			
Administrative costs	8	90,204,812	99,644,893
Other Expenses	9	98,436,634	84,445,974
Audit Fees		780,000	750,000
Legal and Professional Fees	10	3,375,289	1,789,583
Depreciation		93,367,088	86,186,322
Directors Expenses	11	6,427,399	4,700,871
Finance Costs	12	324,455,374	344,403,391
Exchange (Gains) / Losses	13	-	(478,420,275)
Total Costs		617,046,596	143,500,759
Net Profit / Before Taxation		14,347,108	326,471,143



STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2013

		2012-2013 (12 Months)	2011-2012 (12 Months)
		KSHS	KSHS
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	NOTES 14	2,159,047,674	2,095,961,546
Inventories and Work In Progress	15	182,152,336	269,570,831
Trade & Other Receivables	16	317,938,516	245,061,427
Cash and cash equivalents	17	<u>692,330,910</u>	<u>533,234,467</u>
		1,192,421,762	1,047,866,724
TOTAL ASSETS		<u>3,351,469,436</u>	<u>3,143,828,270</u>
EQUITY			
Share Capital	18	60,000,000	60,000,000
Capital Reserves	19	1,718,390,029	1,718,390,029
Accumulated deficit	19	(6,900,726,232)	(6,915,073,340)
TOTAL EQUITY		<u>(5,122,336,203)</u>	<u>(5,136,683,311)</u>
LIABILITES			
CURRENT LIABILITIES			
Trade and Other Payables	20	193,793,579	184,352,681
Provisions	21	22,305,622	12,696,210
Loans	22	8,257,706,438	8,083,462,690
TOTAL LIABILITIES		<u>8,473,805,639</u>	<u>8,280,511,581</u>
TOTAL EQUITY AND LIABILITIES		<u>3,351,469,436</u>	<u>3,143,828,270</u>

Accounts on pages to were approved by the Board of Directors on 25th September 2013

and were signed on its behalf by:

] Directors



STATEMENT OF CHANGES IN EQUITY					
For the period ended 30th June 2013					
	Note	Share Capital	Capital Reserve	Revenue Reserves	Total
		(Kshs)	(Kshs)	(Kshs)	(Kshs)
As at 1st July 2011		60,000,000	1,718,390,029	(7,241,544,483)	(5,463,154,454)
Profit for the year		-	-	326,471,143	326,471,143
As at 30th June 2012		60,000,000	1,718,390,029	(6,915,073,340)	(5,136,683,311)
As at 1st July 2012		60,000,000	1,718,390,029	(6,915,073,340)	(5,136,683,311)
Profit for the year		-	-	14,347,108	14,347,108
As at 30th June 2013		60,000,000	1,718,390,029	(6,900,726,232)	(5,122,336,203)



STATEMENT OF CASHFLOWS FOR YEAR ENDED 30TH JUNE 2013

	2012-2013 (12 Months) KSHS.	2011-2012 (12 Months) KSHS.
Net Cash Inflow from operating Activities:		
Net Profit / (loss) before taxation	14,347,108	326,471,143
Adjustment for items not involving movement of funds:		
Interest on Loans	324,243,749	343,457,202
Depreciation	93,367,088	86,186,322
Profit on Disposal of property Plant and Equipment	(2,411,449)	(93,000)
Exchange (gain)/loss on foreign loans	-	(478,420,275)
Net Operating Profit/(Loss) before changes in working capital:	429,546,497	277,601,392
Changes in:		
-Inventories	87,418,495	(80,509,595)
-Receivables	(72,877,089)	20,976,941
-Payables	9,440,898	(74,968,886)
-Provisions	9,609,412	(4,756,402)
(a) Net Cash Flow from operating activities	463,138,213	138,343,451
Cash flow from investing activities:		
Purchase of assets	(157,008,818)	(175,459,203)
Disposal of Asset - Sales Proceeds	2,967,050	250,000
(b) Net Cash flow from investing activities	309,096,445	(36,865,752)
(c) Cash Flow from Financing activities:		
Repayment of Loans	(150,000,000)	(150,000,000)
Net Increase/(decrease) in cash and cash equivalents(a+b+c)	159,096,445	(186,865,752)
Cash and cash equivalent at the beginning of the year	533,234,466	720,100,219
Cash and cash equivalent at the end of the Period	692,330,911	533,234,467



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

1. **GENERAL INFORMATION**

Agro chemical and food Company Limited was incorporated under the Kenyan Companies Act. The address of its registered office is as follows

Jeevan Bharati Building
7th Floor, Harambee Avenue
P.O. Box 41175 -00100
NAIROBI
Telephone 020-2230083

2. **PRINCIPAL ACCOUNTING POLICIES**

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies adopted remain unchanged from the previous year and are stated below:

Standards and Interpretation in use and not yet adopted

At the date of these financial statements, the following interpretations were in issue but not yet effective:

- Investment Entities:- Amendment to IFRS10, IFRS12 and IAS 2 (Effective for annual periods beginning on or after 1 January 2014)
- Offsetting financial assets and financial liabilities:- Amendment to IAS 32 insights into IFRS chapter 78 Effective for annual periods beginning on or after 1 January 2014)
- Recoverable amount disclosures for non-financial assets:- Amendment to IAS 36 (Effective for annual periods beginning on or after 1 January 2014)
- IFRIC 21:- Levies (Effective for annual periods beginning on or after 1 January 2014)
- IFRS 9:- Financial Instruments: Insight into IFRS chapter 7A ((Effective for annual periods beginning on or after 1 January 2015)

The directors anticipate that the adoption of these standards and interpretations will not result in significant changes in the company's accounting policies.

Basis of Preparation

The financial statements are prepared on the historical cost basis of accounting as modified to ensure compliance with the requirements of the International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings.



Revenue Recognition

Sale of spirits and yeast are recognized upon delivery to or collection of product by customers and are stated net of Value Added Tax, Excise duty and discounts. Excise duty does not apply to yeast sales.

Interest income is accrued on a timely basis, by reference to the principal outstanding at the effective interest rate.

Other income includes interest earned on fixed deposits and from normal trading activities and is recognised on accrual basis.

Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted with the tax legislation. Current corporate tax rate is 30.0% on adjusted profit. There is no tax liability in view of losses available for carry forward of Kshs.4.839 Million (2012: 4.786 million).

Deferred tax liability is provided using the liability method, for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or at professionally re-valued amounts less accumulated depreciation and any accumulated impairment losses.

Property plant and equipment are re-valued at periodic intervals usually after five years. The basis of valuation is depreciated replacement cost.

Increases in the carrying amount arising on revaluations are credited to a revaluation surplus. Decreases that offset previous increases of the same are charged against the revaluation surplus. All other decreases are charged to the income statement.

Tangible property, plant and equipment are depreciated in the year of acquisition and no provision for depreciation is provided for in the year of disposal.

Depreciation is calculated to on the straight-line method to write off the cost or re-valued amount of each asset to its estimated residual value over its estimated useful life. The annual rates used are:

Land	1.05%
Miscellaneous Property	5.0%
Buildings	2.5%



Plant & Machinery	4.0%
Instrumentation & cooling units	4.0 %
Motor Vehicles	12.5% for re-valued items and 25.0% for additions thereafter.
Computers	33.0% for re-valued assets and 25.0% for additions thereafter.
Furniture and fixtures	15% for re-valued assets and 10% for additions thereafter

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. On disposal of re-valued assets, amounts in the revaluation surplus to that asset are transferred to retained earnings.

The carrying values of property, plant and equipment are reviewed annually and adjusted for impairment where it is considered necessary.

Intangible Assets

Intangible assets comprise the cost of acquired computer software programmes. Expenditure on acquired software programmes is capitalised and amortised using the straight-line method over their useful life, generally not exceeding four years. The carrying amount of intangible assets is reviewed annually and adjusted for impairment where it is considered necessary. Intangible assets are not re-valued.

Inventories

Finished alcohol and yeast are stated at the lower of production cost and net realisable value calculated on "average" basis. Production costs comprise expenditure directly incurred in the manufacturing process and an allocation of normal production overheads attributable to the process. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Spares, chemicals and consumable stores are stated at cost. Costs are calculated on weighted average basis and include direct purchase cost, insurance, freight and other incidental costs.

Assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for sale in its present condition. Non-current asset classified as held for sale are measured at the lower of the asset's previous carrying amount and the fair value less costs to sell.



Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and reward of the ownership to the company as the lessee. All other leases are classified as operating leases.

Company as a lessor

Rental income from operating leases is recognised on the straight line basis over the term of the relevant lease.

Company as a lessee

Rentals payable under operating leases are charged to income on the straight-line basis over the term of the relevant lease. Any payment required to be made to the lessor by way of penalty, termination of leases before expiry of the lease period, is recognised in the year in which termination takes place.

Foreign Currencies

Assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rate of exchange ruling at the balance sheet date. The current ruling exchange rate was. Kshs. 85.912 year 2012 Kshs. 84.15 per US\$ ruling at the balance sheet date. Transactions during the year in foreign currencies are translated at the rate ruling at the date of the transactions. Realized and unrealized exchange rate gains or losses arising from such transactions are recorded in the income statement.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of that asset. Other borrowing costs are recognised as an expense in the period they are acquired.

Research and Development expenditure

Expenditure on research and expenditure is recognised as an expense in the period in which it is incurred. Any internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and



- the ability to measure reliability the expenditure attributable to the intangible asset during its development.

The amount initially recognised an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Financial Instruments

Financial assets and liabilities are recognized in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial Assets

The company classifies its financial assets into the following categories; Financial assets at fair value through profit or loss account; loans and receivables; held-to-maturity investments; and available for sale assets. Management determines the appropriate classification of its investments at initial recognition.

Financial Assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable.

Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

Available for sale financial assets

This category represents financial assets that are not;

- (a) Financial assets at fair value through profit or loss
- (b) Loans and receivables
- (c) Financial assets held to maturity.



Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired, at which the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired; less advances from banks repayable within the three months from the date of the advance.

Bank Borrowings

Interest bearing loans and overdrafts are recorded at the proceeds received, net of direct costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

Trade payables

Trade payables are settled at their nominal value.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such condition exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the income statement, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



EMPLOYEE BENEFITS

Defined Contributions Pension Scheme

The company operates a Defined Contribution pension scheme for non-unionisable staff. The assets of the scheme are administered independently of the company's assets.

The staff retirement Benefit Fund was established on 1st February 1982 and was first held in Kenya National Assurance Company (in receivership). It was re-established on 1st October 1994 and held in Insurance Company of East Africa Limited and latter transferred to Employee Benefit Trustees Limited, "its subsidiary".

The scheme is funded by contributions from the employees and the Company. The employees contribute 5% of their basic salaries while the sponsor contributes 10.0% which totals to 15.0% of the basic salary. The company's contribution to the scheme is charged to the income statement in the year to which they relate.

In accordance with the requirements of the Retirement Benefit Act 1997, the conversion approval by the Retirement Benefit Authority granted on 19th July 2004 and on 30, June 2011, the Trustee deed, Funds Management agreement, Investment policy agreement has been complied with. The accounts for 2012 have been audited and submitted to the Retirement Benefit Authority. The scheme has a total of 116 members composed of 89 active members and 27 deferred members. During the year, 7 members left the scheme. The scheme funds are managed independently of the Company's assets by ICEA Lion Life Assurance while the scheme administrator is Aon Minet Insurance Company

The company and its employees also contribute to the National Social Security Fund which is a defined contribution scheme.

The Company's contribution to the National Social Security Fund is determined by statutes and is limited to a specified contribution per month. Currently, the contribution is limited to a maximum of Kshs.200 per employee per month. The contributions are charged to the income statement in the year in the year which they relate.

Contract Gratuity

The company has a fixed term of service with some of the employees. A contract gratuity of 31% of the basic per pay earned over the contract period is paid at the end of the contract. The monetary liability is accrued at the end of each year based on the completed period of service.

Bonus Scheme

The company operates a bonus scheme for its employees. The bonus is payable on achievement of annual performance targets and upon approval by the Parent Ministry and The National Treasury.



Provision for staff leave

A provision is made to recognize staff entitlements in respect of annual leave not taken at the end of the financial year.

Restructuring and rationalization provisions

Restructuring provisions mainly comprise termination payments and are recognized in the period which the Company becomes legally or constructively committed to payment.

Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

4. RISK MANAGEMENT POLICIES

The company activities expose it to a variety of financial risks. These involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Taking risks is core to the business and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance. The Company's risk management policies are designed to identify analyse these risks, set appropriate risk limits and controls, and to monitor the risks and at the same time ensuring adherence to laid down limits. This is achieved by means of a reliable up-to-date information system.

The company's Board Audit committee oversees how the management monitors compliance with the risk management policies and procedures. Risk management is carried out by the management under the supervision of the Board of Directors. The Company has an internal audit department. The internal audit undertakes both regular and ad hoc reviews of risks



management controls and procedures, the results of which are reported to the Audit committee.

The company has exposure of the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

a. **Credit risk**

Due to the nature of the Company's operation it is exposed to credit risk. Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its financial obligations, that and arises from goods sold to customers and investments in short terms deposits. The company is exposed to this risk in several areas including trade and other receivables, and cash and cash equivalents. However the Company credit risk is concentrated trade receivables in terms of sale of yeast to some customers on credit and who are to pay after a period defined by the management.

b. **Market Risk**

i) **Currency Risk**

The Company undertakes certain transactions denominated in foreign currencies mainly in US Dollar, Euro, Sterling pounds and South African Rand. The Company fixed deposits held in commercial banks are denominated in US Dollar. This results in exposure to exchange rate currency fluctuations. The balances impacted in this regard are the balance on outstanding loan, bank balances and accruals denominated in foreign currency.

The risk attributed to the GOK foreign denominated loan of US\$ 34.960 million was eliminated since the government converted the loan to Kenya Shillings as at June 30, 2012 Year 2012 (352,290,609)

ii) **Interest rate risk**

Interest rate arises primarily from borrowings and cash and cash equivalents. The Company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in different portfolios.

As at 30th June 2013, an increase /decrease of 5 percentage points would have resulted in an increase/decrease in pre-tax profits of kshs. 6,194,950 (2012 Kshs. 7,295,518).



The interest rate on the GOK guaranteed loan is fixed thereby eliminating the interest risk.

c. **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they fall due. The Company's approach in managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due without incurring unacceptable losses or at risk of damaging the company's reputation.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including servicing of financial obligations, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the Board of Directors. All capital investments are funded by internally generated funds.

d. **Operational Risk**

Operational risk is the risk of indirect loss arising from a wide variety of causes associated with the Company's process, personnel, technology, infrastructure, external factors other than credit, market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and avoid any control procedures that restrict initiative and creativity in the company.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management in the company's departments.

The responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization and approval of transactions.
- Requirements for the reconciliation of records.
- Compliance with regulatory and legal requirements.
- Documentation of control procedures.
- Requirements for periodic assessment of operational risks faced by the entity, and the adequacy of controls and procedures to address the risks identified.
- Development of contingency plans.
- Training and professional development of staff.
- Adherence to ethical and business standards.

Review of compliance with company standards is reviewed on an ongoing basis by senior management and internal audit department.



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

5. REVENUE

	2012-2013	2011-2012
Spirit sales	1,583,000,330	1307,525,570
Yeast sales	<u>314,710,237</u>	<u>291,515,630</u>
	<u>1,897,710,567</u>	<u>1,599,041,200</u>

6. COST OF SALES

Materials, Energy and Packing	1,049,773,330	960,378,980
Direct Salaries, wages and benefits	196,255,373	164,898,380
Plant Maintenance and other Factory overheads	75,685,938	75,651,570
Stock adjustments	<u>8,642,217</u>	<u>(3,839,114)</u>
	<u>1,330,356,859</u>	<u>1,197,089,816</u>

7. OTHER INCOME

Profit on sale of fixed assets	2,411,449	93,000
Interest on Fixed deposits	43,402,430	52,928,382
Rent paid by employees	4,975,950	4,897,817
Miscellaneous Income	<u>13,250,167</u>	<u>10,101,320</u>
	<u>64,039,996</u>	<u>68,020,519</u>

8. ADMINSTRATIVE EXPENSES

Advertising and Public relations	669,139	827,420
Computer Expenses	2,773,425	2,168,040
Donations	520,595	324,065
Subscriptions and Newsletter	681,652	794,333
Entertainment Expenses	-	33,900
Guest House Expenses	1,104,724	1,141,045
Management Fees	26,782,191	28,308,594
Office equipment repairs	1,156,537	1,864,485
Motor Vehicle running Expenses	12,541,162	15,117,993
Postage, telegrams and telephone	2,013,902	1,669,586
Printing and stationery	1,101,157	1,608,343
Travelling and Accommodation	8,522,270	9,557,088
Marketing and Nairobi office expenses	24,538,883	27,269,568
Consultancy on Industry Survey	-	2,043,620
Consultancy and performance contracting activities	439,155	219,553
Security Hire	<u>7,360,020</u>	<u>6,697,260</u>
	<u>90,204,812</u>	<u>99,644,893</u>



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

	2012-2013 Kshs	2011-2012 Kshs
<u>9. OTHER EXPENSES</u>		
Insurance and Licenses	12,336,958	12,041,355
Rent	1,219,172	1,089,188
Repairs and renewals (Housing)	705,936	326,407
Write Back on Debtors	(216,090)	-
Recruitment expenses	281,212	318,290
Salaries and Wages	61,211,831	54,717,170
Staff welfare	<u>22,897,615</u>	<u>15,953,564</u>
	<u>98,436,634</u>	<u>84,445,974</u>
<u>10. LEGAL AND PROFESSIONAL FEES</u>		
Legal Fees	3,375,289	1,533,235
<u>11. DIRECTORS EXPENSES</u>		
Directors Honorarium	720,000	720,000
Board & Committee sitting allowances	3,291,851	2,676,470
Other Expenses	<u>2,415,548</u>	<u>1,304,401</u>
	<u>6,427,399</u>	<u>4,700,871</u>
<u>12. FINANCE COSTS</u>		
Bank Charges	973,273	1,381,257
Exchange Loss / (Gains) Operations	(62,991)	211,756
Other Interest	(698,656)	(646,823)
Interest on loans	<u>324,243,748</u>	<u>343,457,201</u>
	<u>324,455,374</u>	<u>344,403,391</u>
<u>13. EXCHANGE GAIN/LOSSES</u>		
USD: 83,729,200 @ Kshs.5.7139	<u>-</u>	<u>(478,420,275)</u>

There was no gain or loss in foreign exchange during the year 2012/2013 as a result of conversion of foreign denominated loans to Kenya shilling as at June 30, 2012 compared to a gain of Kshs. 5.7139 in 2011/2012.



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

14(A) SCHEDULE OF PROPERTY, PLANT & MACHINERY AND EQUIPMENT FOR THE YEAR ENDED 30TH JUNE 2013									
	Land Kshs.	Miscellaneous property Kshs.	Building, Housing & Factory Kshs.	Plant and Machinery Kshs.	Work in Progress Kshs.	Motor Vehicles Kshs.	Computers and Accessories Kshs.	Furniture and Fixtures Kshs.	Total Kshs.
COST VALUATION COMPRISING									
As at 1st July 2012	19,772,100	13,030,478	306,377,914	1,699,833,465	164,659,409	39,576,150	11,942,446	10,597,206	2,265,769,168
Additions	0	0	7,200,333	17,250,680	130,009,428	188,015	2,229,444	130,918	157,008,818
Transfer From Work in Progress	0	0	0	143,456,374	(143,456,374)	0	0	0	0
Disposal	0	0	0	0	0	(634,974)	0	0	(634,974)
As at 30th June 2013	19,772,100	13,030,478	313,578,247	1,860,540,519	151,212,463	39,129,191	14,171,890	10,728,124	2,422,163,012
DEPRECIATION									
As at 1st July 2012	419,934	1,042,438	14,906,907	136,602,843	0	10,646,019	4,178,439	2,031,042	169,827,622
Charge for the Period July 2012- June 2013	209,967	521,220	7,839,457	75,293,108	0	5,596,146	2,834,378	1,072,812	93,367,088
On Disposal						(79,372)			(79,372)
As at 30th June 2013	629,901	1,563,658	22,746,364	211,895,951	0	16,162,793	7,012,817	3,103,854	263,115,338
NET BOOK VALUE									
As at 30th June 2013	19,142,199	11,466,820	290,831,883	1,648,644,568	151,212,463	22,966,398	7,159,073	7,624,270	2,159,047,674
As at 30th June 2012	19,362,166	11,988,040	291,471,007	1,563,230,622	164,659,409	28,930,131	7,764,007	8,566,164	2,095,961,546



14(B). SCHEDULE OF PROPERTY, PLANT & MACHINERY AND EQUIPMENT

COST / VALUATION

	Land Kshs.	Miscellaneous property	Building, Housing & Factory Kshs.	Plant and Machinery Kshs.	Work in Progress Kshs.	Motor Vehicles Kshs.	Computers and Accessories Kshs.	Furniture and Fixtures Kshs.	Total Kshs.
COMPRISING									
As at 1st July 2011	19,772,100	13,030,478	289,898,379	1,683,794,917	31,216,019	34,093,020	8,949,750	9,732,302	2,090,486,965
Additions			16,479,535	16,038,548	133,443,390	5,640,130	2,992,696	864,904	175,459,203
Disposal						(157,000)			(157,000)
As at 30th June 2012	19,772,100	13,030,478	306,377,914	1,699,833,465	164,659,409	39,576,150	11,942,446	10,597,206	2,265,789,168

DEPRECIATION

As at 1st July 2011	209,967	521,219	7,247,460	67,929,927		4,970,501	1,789,950	972,276	83,641,300
Charge for the Period July 2011- June 2012	209,967	521,219	7,659,447	68,672,916		5,675,518	2,388,489	1,058,766	86,186,322
As at 30th June 2012	419,934	1,042,438	14,906,907	136,602,843	0	10,646,019	4,178,439	2,031,042	169,827,622

NET BOOK VALUE

As at 30th June 2012	19,352,166	11,988,040	291,471,007	1,563,230,622	164,659,409	28,930,131	7,764,007	8,566,164	2,095,961,546
As at 30th June 2011	19,562,133	12,509,259	282,650,919	1,615,864,990	31,216,019	29,122,519	7,159,800	8,760,026	2,006,845,575



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

15. INVENTORIES AND WORK IN PROGRESS

	2012-2013	2011-2012
Goods in transit	9,189,563	4,395,915
Raw materials and spares	153,336,130	236,905,054
Work in Progress	3,465,382	3,522,910
Finished Goods	<u>16,161,263</u>	<u>24,745,952</u>
	<u>182,152,338</u>	<u>269,570,831</u>

16. TRADE AND OTHER RECEIVABLES

Trade Debtors	192,815,392	138,917,784
Pre-payments	49,229,694	38,259,944
Creditors with debit Balances	34,761,787	15,823,997
Other debtors	<u>117,999,501</u>	<u>129,312,330</u>
Total	394,806,374	322,314,055
Provision for Bad and Doubtful debts	<u>(76,867,891)</u>	<u>(77,252,628)</u>
	<u>317,938,516</u>	<u>245,061,427</u>

17. CASH AND CASH EQUIVALENTS

Petty Cash (Nairobi)	26,374	86,933
Petty Cash (Muhoroni)	164,332	338,364
NBK Kisumu Current A/C	171,388,560	38,949,114
BBK Kisumu Current A/C	44,609,462	21,063,550
NBK Nairobi Retention A/C	3,224,303	3,161,312
NBK Harambee Avenue Current A/C	975,580	1,154,127
KCB Muhoroni A/C	11,290,553	4,031,316
NBK Kisumu Savings A/C	4,843,027	3,901,237
KCB Muhoroni Current A/C School	4,392,096	2,368,906
Fixed Deposits	451,416,623	451,416,623
Interest Receivable	-	6,762,985
	<u>692,330,910</u>	<u>533,234,467</u>

18. SHARE CAPITAL

Authorised 3,750,000 Ordinary shares Of Kshs.20/=	75,000,000	75,000,000
Issued and fully paid 3,000,000 Ordinary shares of Kshs.20/=	60,000,000	60,000,000



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

19. RESERVES

	CAPITAL RESERVE SHS.	REVENUE RESERVE SHS.	TOTAL RESERVE SHS.
Balance as at 1 st July, 2012	1,718,390,029	(6,915,073,340)	(5,196,683,311)
Profit for the period ended 30 th June, 2013		14,347,108	14,347,108
As at 30th June, 2013	1,718,390,029	(6,900,726,232)	(5,182,336,203)

20. TRADE AND OTHER PAYABLES

	2012-2013 KSHS	2011-2012 KSHS
Trade Payables	67,866,785	70,318,624
Debtors with credit Balances	58,814,953	62,208,912
Other Payables	<u>67,111,841</u>	<u>51,825,145</u>
	<u>193,793,579</u>	<u>184,352,681</u>

21. PROVISION

	2012-2013 12 MONTHS KSHS	2011-2012 12 MONTHS KSHS
Provision at the beginning of the year	12,696,210	17,462,612
Provision for the year	17,397,848	9,040,592
Paid during the year	(7,788,436)	(13,796,994)
	<u>22,305,622</u>	<u>12,696,210</u>

22. LOANS

	Interest Rate	2012-2013 12 MONTHS KSHS	Interest Rate	2011-2012 12 MONTHS KSHS
GOK ON-LENT	7%	2,941,884,000	7%	2,941,884,000
Loans interest deferred		4,634,103,817		4,447,385,391
Interest on GOK paid Loan	17.45%	<u>681,718,621</u>	18.50%	<u>694,193,299</u>
		<u>8,257,706,438</u>		<u>8,083,462,690</u>



Foreign loans were restructured as at 31st December 1993 i.e. converted to GOK on-lent loan of US\$.34, 960,000 payable in fourteen semi-annual instalments up to 2002. Interest accrued on on-lent loan is Kshs.4, 634,103,817 and the interest accrued on loan paid on our behalf by GOK is Kshs. 681,718,621.

23. CAPITAL COMMITMENTS

	2012-2013 KSHS	2011-2012 KSHS
Authorised and Contracted	224,695,000	269,375,000
Authorised but not Contracted	<u>14,669,000</u>	<u>11,248,000</u>
TOTAL	<u>239,364,000</u>	<u>280,623,000</u>

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

24. CONTINGENT LIABILITY

- i) At the end of the financial period the company had no contingent liability (2011/2012 Kshs.74, 677,161.65) in respect of bank letters of credit and outstanding as at 30th June 2013. The potential liability that may arise from the letters of credit in the event that the goods are not supplied and the company has no funds to pay the suppliers. The Directors are of the opinion that no such liability will arise.
- ii) There is a pending tax assessment of Kshs.229, 517,721 from Kenya Revenue Authority which is not yet finalized. The matter is currently in court. The Directors are of the opinion that the tax demand will be vacated and hence no liability arising. However, the outcome of the case remains unknown as at the balance sheet date.
- iii) There is a pending demand of Kshs.634, 644,435 from Kenya Revenue Authority in respect of Withholding Tax assessment on interest paid to Treasury over a period of time against the Loan paid by Treasury on behalf of the Company. The Directors are of the opinion that this demand will be vacated and hence no liability arising.
- iv) There is a pending tax demand from Kenya Revenue Authority of Kshs.7, 310,579 arising from a claim on spirits designated for export market and diverted to the local market. The matter is currently in court. The directors are of the opinion that the tax demand will be vacated and hence no liability arising.



25. **RELATED PARTY TRANSACTIONS**

Mehta Group owns 44% of shareholding of ACFC, and as such a related party. The transaction with this party during the year related to payment of management fees of Kshs.26, 782,191 (2011/2012: Kshs.28, 308,594).