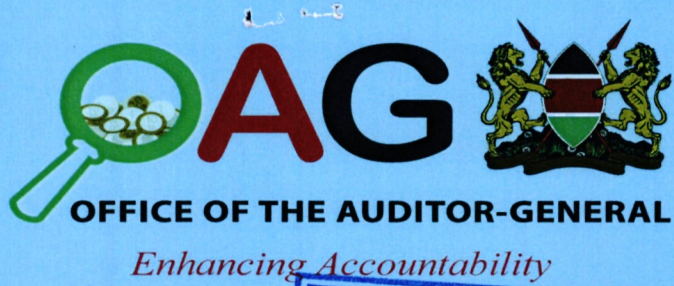



REPUBLIC OF KENYA



**REPORT**

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PARLIAMENT  
OF KENYA  
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**THE AUDITOR-GENERAL**

**ON**

**AGRO-CHEMICAL AND FOOD  
COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2019**



**AGRO-CHEMICAL AND FOOD  
COMPANY LIMITED**

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**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30TH JUNE, 2019**

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Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)



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## COMPANY INFORMATION

### a) BACKGROUND INFORMATION

Agro-Chemical and Food Company was established in 1978 under the Companies Act Cap 486 to produce power alcohol from sugar cane molasses. It was a unique joint venture between the private sector and the Government of Kenya. The Power Alcohol was to be blended with petrol to make gasohol as a national strategy for reducing foreign exchange used to purchase petroleum oil. The project was conceived by Mr. M. N Mehta, Chairman of Mehta Group and implemented within the budgeted time and costs. The company was finally established and commissioned in 1982.

The project also suited well with the strategy adopted by the Government of Kenya as part of rural industrialization programme meant to curb post-independence migration to urban areas. The technology selected was from M/s. Vogelbusch of Austria which was one of the "best technologies" in the world in the field of Alcohol and Active Dry Yeast.

The programme could not be sustained because there was no policy and legal framework to regulate the use of power alcohol. In addition, there was resistance from the multinational petroleum Companies who feared a reduction in their market share and therefore the Company shifted to producing various grades of spirit and yeast.

Upon inception, the Company was under the Ministry of Energy, however from 1996, the Company was placed under the Ministry of Agriculture where it has been todate.

### b) PRINCIPAL ACTIVITIES

The Company produces Extra Neutral Spirit, Kenya Methylated Spirit, Industrial Methylated Spirit, Active Dry Yeast and fresh Wet yeast from sugar cane molasses for both local and export markets. The company also produces bottled spirits and carbon dioxide.



**COMPANY INFORMATION (Continued)**

**c) Board of Directors**

Directors who served the Company during the year are as follows:

<b>ORGANIZATION</b>	<b>NAME</b>
Agricultural Development Corporation	Mr. Mohamed Bulle-Chairman (Appointed on April 5, 2019) Mr. Richard K. Aiyabei (Replaced on April 5, 2019).
Agricultural Development Corporation	Dr. Winnie Macharia (Appointed on 02.10.2017).
Industrial and Commercial Development Corporation	Mrs. Faith Diana Nene (Appointed on 30.11.2017).
Industrial and Commercial Development Corporation	Ms. Barbara Lunani (Appointed on 17.10.2018)
	Mr. Dismas J.O. Oyieko, HSC (Replaced on 17.10.2018).
The Mehta International Limited	Mr. Suresh C. Sharma (Appointed on 26.07.1994).
The Mehta International Limited	Mr. Nanalal P. Sheth, (Alternate to Mr. M.N. Mehta) (Appointed on 18.07.2009).
Ministry of Agriculture, Livestock Fisheries & Irrigation (State Department Crop Development)	P.S. (Alternate: Mr Abraham Barno) (Appointed on 14.07.2014).
The National Treasury	C.S. (Alternate: Mr. Paul Kiagu) (Appointed on 18.11.2015)
Resident Director & Chief Executive:	Mr. Ashok Agrawal



### COMPANY INFORMATION (Continued)

Company Secretary:  
Ms. Sharon Cheruiyot, CPS (Kenya)  
P.O. Box 18-40107  
MUHORONI, KENYA

- d) **Registered Office**  
Jeevan Bharati Building  
7<sup>th</sup> Floor, Harambee Avenue  
P.O. Box 41175 –00100  
Nairobi, Kenya  
Telephone 020-2230083
- e) **Principal place of Business**  
Muhoroni Factory  
Muhoroni Town  
P.O. Box 18-40107  
Muhoroni, Kenya  
Telephone +254 020 2334020/1  
Email. [admin@acfc.co.ke](mailto:admin@acfc.co.ke)  
Website: [www.acfc.co.ke](http://www.acfc.co.ke)
- f) **Corporate Bankers:**  
National Bank of Kenya Limited  
P.O. BOX 1152-40100  
KISUMU
- Barclays Bank of Kenya Limited  
P.O. Box 831  
KISUMU
- Kenya Commercial Bank Limited  
P.O. Box 113  
MUHORONI



**COMPANY INFORMATION (Continued)**

g) **Independent Auditors:**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100  
NAIROBI, Kenya

h) **Principal Legal Advisers:**

1. Staussi Asunah & Oluoch Advocates  
P.O. Box 3140-40100  
Kisumu, Kenya
2. Theuri Wanjohi & Co. Advocates  
P.O. Box 6502-00100  
Nairobi, Kenya

i) **Managing Agent:**

The Mehta International Limited  
Peponi Plaza, 1st Floor  
Peponi Road  
P.O. Box 14692  
Westlands 00800  
Nairobi, Kenya



## VISION AND MISSION STATEMENTS

### OUR VISION

*The preferred producer and supplier of spirits, yeast and related products.*

### OUR MISSION

*Production of world class quality products through a cost effective, innovative and environmental friendly technologies.*



**BOARD OF DIRECTORS AND SENIOR EXECUTIVES**

**BOARD OF DIRECTORS**




FULL NAMES OF CHAIRMAN, CEO & BOARD OF DIRECTORS	DESIGNATION (e.g. CHAIRMAN, CEO, MEMBER)	DATE OF APPOINTMENT	ACADEMIC PROFESSIONAL QUALIFICATIONS	DATE OF BIRTH	EXPERIENCE (YEARS WITH ACFC)
MR. MUHAMMED BULLE	CHAIRMAN	05.04.2019	BSC (Agricultural Education and Extension) and Msc Environmental Science (Specialized in sustainable development and climate change)	1958	0
DR. WINNIE MACHARIA	MEMBER	02.10.2017	PhD BA, MBA Strategic development	1968	2
MR. ASHOK AGRAWAL	CEO	01.11.2011	B.Tech. (Chem. Engineering)	1959	9
MRS. FAITH NENE	MEMBER	30.11.2017	BA, HRM, Masters HRM	1968	2
Ms. BARBARA LUNANI	MEMBER	17.10.2018	(LLB)	1980	1
MR. M.N. MEHTA	MEMBER	15.12.1982	Entrepreneur/Business Executive	1932	38
MR. SURESH .C. SHARMA	MEMBER	26.07.1994	B.Sc.A.N.S., F.R.S.C.(London), Chartered Chemist (London). Chartered Scientist (London). F.I.E. Chartered Engineer (India). M.Am Chem Soc (U.S.A)	1936	26
MR. NANALAL .P. SHETH	MEMBER	18.07.2009	Barrister of Law, Advocate	1927	11
MR. ABRAHAM BARNO	MEMBER	14.07.2014	B.Sc. Agric, MSc. (Agric Rural Dev.)	1959	5
MR. PAUL KIAGU	MEMBER	18.11.2015	B.A (Econs) M.sc (Econs)	1969	4




**MANAGEMENT TEAM**

NAME	POSTION AND QUALIFICATION	DATE OF BIRTH
1. ASHOK AGRAWAL	CHIEF EXECUTIVE OFFICER B. Tech. (Chem. Engineering)	26 <sup>th</sup> January 1959
2. OWITI EDWIN OWINO	FINANCIAL CONTROLLER B.ED, CPA(K )	8 <sup>th</sup> August 1976
3. SHARON CHERUIYOT	COMPANY SECRETARY LLB, CPS (K)	13 <sup>th</sup> December 1989

BOARD OF DIRECTORS AND SENIOR EXECUTIVES (Continued)

DIRECTORS BIOGRAPHIES

 <p><b>Mr. Mohamed Bulle</b> -Chairman</p>	<p>He was born in the year 1958 and was appointed to the Board on 05.04.2019 He is currently the Acting Managing Director of Agricultural Development Corporation and is a holder of BSC (Agricultural Education and Extension) and Msc Environmental Science (Specialized in sustainable development and climate change) He has one year working experience with ACFC.</p>
 <p><b>Dr. Winnie Macharia</b></p>	<p>She was born in the year 1968 and was appointed to the Board on 02.10.2017. She is currently a Technical officer at the Agricultural Development Corporation and is a holder of PHD BA, MBA, Strategic Management. She has two years working experience with ACFC.</p>
 <p><b>Mrs. Faith Diana Nene</b></p>	<p>She was born in the year 1968 and was appointed to the Board on 30.11.2017. She is currently the Human Resource and Administration manager at the Industrial and Commercial Development Corporation. She has two years working experience with ACFC.</p>

BOARD OF DIRECTORS AND SENIOR EXECUTIVES (Continued)	
 <p><b>Ms. Barbara Lunani</b></p>	<p>She was born in the year 1980 and was appointed to the Board on 17.10.2018. She is currently working at ICDC as Assistant manager (Legal Services). She is a holder of (LLB) and an advocate of the High Court. She has one year working experience with ACFC.</p>
 <p><b>The National Treasury C.S.(Alternate: Mr. Paul Kiagu)</b></p>	<p>He was born in the year 1969 and was appointed to the Board on 18.11.2015. He is currently a working at The National Treasury and is a holder B.A (Econs) M.sc (Econs). He has four years working experience with ACFC.</p>
 <p><b>Mr. Suresh C. Sharma</b></p>	<p>He was born in the year 1936 and was appointed to the Board on 26.07.1994. He is currently a working as Regional Director at SCOUL and is a holder of B.Sc.A.N.S., F.R.S.C.(London), Chartered Chemist (London). Chartered Scientist (London). F.I.E. Chartered Engineer (India). M.Am Chem Soc (U.S.A). He has twenty-six years working experience with ACFC.</p>

**BOARD OF DIRECTORS AND SENIOR EXECUTIVES  
(Continued)**



He was born in the year 1927 and was appointed to the Board on 18.07.2009. He is a Barrister of Law and has a eleven years working experience with ACFC.



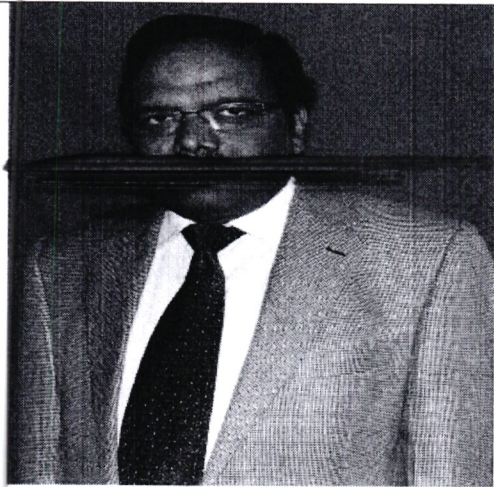

**Mr. M.N. Mehta**

He was born in the year 1932 and was appointed to the Board on 15.12.1982. He has thirty-eight years working experience with ACFC.




**Ministry of Agriculture, Livestock & Fisheries(State Department of Agriculture)P.S Alternate: Mr Abraham Barno)**

He was born in the year 1959 and was appointed to the Board on 14.07.2014. He is currently working at Ministry of Agriculture, Livestock & Fisheries (State Department of Crops Development) and is a holder B.Sc. Agric, MSc. (Agric Rural Dev). He has Four years working experience with ACFC.

BOARD OF DIRECTORS AND SENIOR EXECUTIVES (Continued)	
	<p>He was born on 26<sup>th</sup> January 1959 and is a holder of B. Tech. (Chem. Engineering).</p> <p>He is currently the Resident Director and Chief Executive.</p>
	<p>He is currently the Financial Controller. He was born in 1976 and is a holder of B.ED, CPA(K) and member of ICPAK</p>

**Mr. Ashok Agrawal**  
Resident Director and Chief Executive

**Mr. Edwin O. Owiti**

BOARD OF DIRECTORS AND SENIOR EXECUTIVES (Continued)	
  <b>Ms. Sharon Cheruiyot</b>	<p>She is currently the Company Secretary and she is a holder of (LLB), an advocate of the High court and a Certified Secretary.</p>

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019



It is my pleasure to present the Annual Report and financial statements of ACFC for the year ended 30<sup>th</sup> June 2019.

### SUMMARISED OPERATING RESULTS

The Company's operations mainly depend on the quantity of molasses supplied by sugar companies. The Company received 63,626 tons (2017/2018: 36,562 tons) of molasses against a budgeted quantity of 60,000 tons.

The Company produced 11.120 million (2017/2018: 4.863 million) litres of alcohol against budgeted quantity of 13.780 million litres. Active Dry Yeast (ADY) production was 70 tons (2017/2018: 67 tons) against a budget of 600 tons representing a decrease of 530 tons.

The budgeted quality of ADY was not achieved mainly due to delay in certification of Agroplus (animal feed) which the Company intended to roll out during the year.

Wet Yeast production was 805 tons (2017/2018: 868 tons) against a budget of 1,000 tons representing a decrease of 195 tons. During the year the Company produced 24,984 cartons (2017/2018: 31,770 cartons) of "Patriot" bottled spirits and 83 tons (2017/2018: 51 tons) of Carbon dioxide.

The Company realized a turnover of Kshs. 1,212.744 million (2017/2018 Kshs. 615.925 million) against the budget of Kshs. 1,944.184 million.

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



## CHAIRMAN'S REPORT (Continued)

### FINANCIAL HIGHLIGHTS

PRODUCTION	2018-2019			2017-2018			2016-2017	
	BUDGET	ACTUAL	% ACTUAL BUDGET	BUDGET '000'	ACTUAL '000'	% Actual Budget	BUDGET	ACTUAL
Alcohol (Lts. 000)	13,780	11,120	81%	16,100	4,863	30%	16,200	11,124
Active Dry Yeast (Tons)	600	70	12%	600	67	11%	800	271
Wet Yeast (Tons)	1,000	805	81%	1,000	868	87%	1,000	794
Carbon Dioxide (Tons)	1,000	83	8%	1,200	51	4%	2,500	149
Compounded Spirit (Patriot) (Cartons)	72,000	24,984		120,000	31,770	19%	120,000	22,763
<b>SALES:</b>								
Alcohol (Lts 000).	13,780	10,454	76%	16,100	3,686	23%	16,200	12,197
Active Dry Yeast (Tons)	600	66	11%	600	92	15%	800	264
Wet Yeast (Tons)	1,000	805	81%	1,000	868	87%	1,000	794
Carbon Dioxide (Tons)	1,000	94	9%	1,200	51	4%	2,500	141
Compounded Spirit (Patriot) (Cartons)	72,000	29,408	41%	120,000	27,501	23%	120,000	21660
<b>FINANCIAL INDICATORS:</b>								
Sales Turnover (Kshs.'000')	1,944,184	1,212,744	62%	2,137,240	615,925	29%	2,176,100	1,335,516
Other Income (Kshs. '000')	69,700	59,526	88%	142,764	83,574	59%	67,500	432,851
<b>GROSS REVENUE (Kshs. '000')</b>	<b>2,013,884</b>	<b>1,272,270</b>	<b>63%</b>	<b>2,280,004</b>	<b>699,499</b>	<b>31%</b>	<b>2,243,600</b>	<b>1,768,367</b>
Operating Profit/ (Loss) Before Interest (Kshs. '000')	159,322	(225,660)		309,414	(422,435)		367,566	364,797
Interest on loans (Kshs. '000')	295,948	278,947	94%	275,657	275,530	99%	283,631	263,368



Net Profit (Loss) (Kshs. '000)	(136,626)	(504,607)		33,757	(697,966)		83,935	101,429
Corporate tax 30% (Kshs. '000)		16,233			16,846			60,630
<b>Net Profit (Loss) After Tax</b> (Kshs. '000)	(136,626)	<b>(520,841)</b>			<b>(714,812)</b>		83,935	<b>40,799</b>

Total sales turnover for the year was Kshs. 1,212.743 million compared to Kshs. 615.925 million in the previous year. The increase in turnover is mainly due to improvement in availability of molasses ~~leading to increased~~ alcohol production. 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. 1,272.270 million compared to Kshs. 699.499 million last year. The Company registered an operating loss before loan interest of Kshs. 225.660 million compared to a loss Kshs. 422.435 million in 2017/2018. After charging loan interest of Kshs. 278.947. million (2017/2018: 275.530 million) the Company registered an overall net loss of Kshs. 504.607 million compared to a net loss of kshs. 697.966 million in 2017/2018. After Charging Corporate tax of Kshs. 16.234 million the Company registered a loss of Kshs. 520.841 million 2017/2018 loss of Kshs. 714.812 million.

### CHALLENGES

During the year, the Company could not achieve its budgeted production and sale targets. This is mainly due to:

- a) Drop in sales of alcohol was due to increased competition from other distilleries and increase in taxes on spirits.
- b) Diminishing demand for ADY as a result of stringent alcoholic crackdowns and surveillance.
- c) Low uptake of Carbon dioxide.
- d) Cheap brands of Compounded spirits in the market.

### 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 to achieve such a milestone.



## CHAIRMAN'S REPORT (Continued)

May I also acknowledge the vital role played by the Ministry of Agriculture Livestock and Fisheries (State Department of Crops Development), The National Treasury, Agricultural Food Authority (AFA) and Sugar companies for their continued guidance and support.

### PROSPECTS

The Company prospects depend on the quantity of molasses that the Company can obtain from sugar companies. Our continued appeal to the sugar companies for affordable molasses price remains on course. When the Company is finally privatized, and strategic alliances entered with sugar companies, this dream will surely be realized.

### CONCLUSION

My sincere appreciation goes to all my colleagues on the Board for their tireless devotion and valued guidance. I look forward to similar enthusiastic and 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 towards turning around the Company back to profitability.

**MR. MOHAMED BULLE**  
**CHAIRMAN**



## **REPORT OF THE RESIDENT DIRECTOR AND CHIEF EXECUTIVE**



**Mr. Ashok Agrawal**

During the year 2018/2019 the Company registered a net loss of Kshs. 520,840,991 as a result of drop in sales of spirits, reduced sales of ADY and cheap compounded spirits in the market. However, turnover nearly doubled compared to previous year mainly due to improvement in molasses sourcing.

The Company revised its current strategic plan for the year 2018/2019 to 2022/2023 to address the challenges faced during the year. The Company intends to do aggressive marketing, introduce new products, enhance production capacities and embrace cost rationalization. The management believes that these strategies will enable the Company bounce back to recovery path.

The Company is under privatization and consultancy is currently underway by the Privatization Commission. Privatization of the Company is key in bringing back the Company to profitability and a healthier balance sheet will therefore be realized.

I remain optimistic and looking forward to the days when ACFC will return to profitability and declare dividends to its shareholders.

I would wish to thank the Board, Management and staff of ACFC as well as other stakeholders for the support received during the year.

**ASHOK AGRAWAL  
RESIDENT DIRECTOR  
AND CHIEF EXECUTIVE**



## **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 and Fisheries (State Department of Crops Development) and representative of C.S., The National Treasury. Therefore, the Company Directors are not elected but are representatives of institutions by 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 quarterly financial statements and to discuss other matters of strategic importance to the Company. Senior management of the Company attends Board meetings by invitation, whenever necessary. During the year the schedule of meetings held, and attendance thereof is as tabulated below:

Date of Meeting	Number of attendances
July 26, 2018	6
September 25, 2018	6
October 30, 2018	8
January 25, 2019	7
April 25, 2019	9

### **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,

a) **Audit and Risk Committee**

The purpose of this Committee is to review the systems established to ensure sound public financial management and internal controls, risk management policies 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 and Commercial 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.

**Board Charter**

The Board has in place a Board charter approved by the Board of Directors which facilitates the full and free exercise of professional competencies and ensures the effectiveness of each Director's contribution, consistent with the standards of independent judgement, ethics and integrity which the Directors are expected to observe.

**Appointment and Removal of Directors**

The Board of Directors are appointed by the respective shareholders.

**Induction and Training of Directors**

New Board members are inducted upon appointment and the legal and regulatory texts associated with the Company's particulars, deriving from the memorandum and Articles of Association, Board's operating rules and procedures, and any other issues necessary for proper discharge of duties provided. They are also trained on corporate governance to enhance their skills.



### **Code of conduct and Ethics**

In accordance with the principles of good corporate governance, each director undertakes to:

- a) To act first, foremost and always in the best interest of the Company and not for their own collateral purpose;
- b) To exercise his/her power in the executive duties in outmost good faith;
- c) To act with **due care, a prudent person would take when acting on their own behalf.**
- d) That in arriving at a decision on any issue, he/she shall strive to ensure that the decision is in the best interest of the Company and is not driven by any other interest.
- e) Subscribe to the Company Core values to always act in the interest of the Company by promoting the effective and responsible use of resources for the benefit of the Company and commits to upholding them and ensuring their implementation.
- f) Take into account not only the possible financial impact of their decisions, but also their consequences for sustainable development, their effect on relations with stakeholders and the general interest of communities where the Company operates.
- g) Meet the leadership and integrity requirements of responsible leadership, code of conduct and financial probity of a Director in accordance of the Companies Act and Memorandum and Articles of Association of the Company.
- h) Preserve his or her independence of analysis, judgement, decision and action and to resist any pressure, direct or indirect, whether by other Directors, member groups, creditors, suppliers and any third party.

### **Conflict of Interest**

Each Board of Director undertakes to disclose to the Board fully and immediately it comes to his/her attention any real or potential conflict of interest direct or indirect, which they may have. A Director with such a conflict shall not participate in any discussion of any such topic or vote on it.

### **Board Remuneration**

The remuneration of the Board of Directors shall be as per the regulations approved by the Government from time to time. The Directors shall also be paid such travelling, subsistence and other reasonable expenses incurred by them in attending, from their usual place of residence and returning from any meetings in connection with the business of the Company according to the rates approved by the Government of Kenya from time to time.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Company's performance during the financial year is as tabulated below:

### **I. OPERATIONAL PERFORMANCE**

During the year ended June 30, 2019 the Company faced stiff competition from other distillers and imports leading to lower alcohol sales. The low sales therefore affected profitability of the Company.

#### **a. Molasses Procurement**

The Company's operations mainly depend on the quantity of molasses that we procure from the sugar companies. During the financial year 2018/2019, the Company procured 63,626 (2017/2018: 36,562) tons of molasses against a target of 60,000 tons.

#### **b. Production**

The Company produced 11.120 million litres of alcohol, 70 tons of ADY and 805 tons of Wet Yeast against the budget of 13.78 million litres of alcohol, 600 tons of ADY and 1,000 tons of Wet Yeast. The Company fell short of achieving the set production target for Alcohol, ADY and Wet Yeast mainly due reduced sales of alcohol due to stiff competition from other distilleries, reduced sales of ADY and use of imported instant yeast by bakeries.

#### **c. Sales**

The Company sold 10.454 million litres of alcohol, 66 tons of ADY and 805 tons of Wet Yeast against the budget of 13.78 million litres of alcohol, 600 tons of ADY and 1,000 tons of Wet Yeast.

### **II. FINANCIAL PERFORMANCE**

During the year 2018/2019, the Company generated a turnover of Kshs. 1,212,743,816 (2017/2018 Kshs. 615,924,689 ). The operating loss before interest on loans was Kshs 225,660,111 (2017/2018: Kshs. 422,435,446 ). However after charging interest on loan of Kshs. 278,947,083 (2017/2018: Kshs. 275,530,591), the Company registered a net loss of Kshs. 504,607,193 (2017/2018: loss of Kshs. 697,966,037). After charging corporate tax

of kshs. 16,233,798 (2017/2018 Kshs. 16,846,580) the Company registered a loss of Kshs. 520,840,991 (2017/2018 loss of kshs 714,812,617).

III. **PROJECTS OR INVESTMENTS**

During the year, the Company implemented projects aimed at improving profitability as per the *approved budget and strategic plan*.

IV. **COMPLIANCE WITH STATUTORY REQUIREMENTS**

During the financial year, the Company complied with all the statutory requirements and remitted all taxes due in good time, there was no penalty for failure to comply with statutory requirements.

V. **CHALLENGES FACING THE COMPANY**

The Company faces challenges in operations as enumerated below:

- Unstable supply of molasses
- Cheap alcohol in the spirits market
- Competition from other distilleries
- Slow Privatization process
- Negative Share Capital/Equity
- High Cost of major inputs – Molasses, fuel oil and chemicals.

VI. **MATERIAL ARREARS IN STATUTORY AND OTHER FINANCIAL OBLIGATIONS**

The Company has no material arrears in Statutory obligations and all obligations were remitted in time. However due to the above challenges the Company did not repay the GOK loan during the year and the loan balance stood at 9,351,809,235.



## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

Agro-Chemical and Food Company Limited (ACFC) has continued to actively participate in various projects as per our Corporate Social Responsibility (CSR) policy.

The Company continues to run Muhoroni Furaha Primary School which is fully funded by the Company. The school enrol children from the employees and the neighbouring community and is one of the top performing schools in the Country.

In environmental management, the Company set up a multi-million Effluent treatment plant which reduces the BOD and COD levels in the effluent emitted by the Company. The plant also generates gas that is used in the boilers leading to reduced usage of fuel burner oil. The Company also participates in various activities organised by the various institutions involved in environmental management like Water Resource Management Authority, NEMA and others.

The Company also sends its staff on training and workshops in relevant fields to improve their skills. The Company employees have a health insurance cover in line with the Company policy.

The Company has a cordial labour relation with the union and there has not been any industrial unrest since inception of the Company.



## **DIRECTORS' REPORT**

The Directors present their report, statement of profit & loss and other other comprehensive income, the statement of financial position, statement of changes in equity and statement of cash flows for the year ended 30th June 2019.

Since the beginning of the year, no director has received or become entitled to receive a benefit which is to be disclosed, by reason of a contract made by the company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except for salaries, bonuses and other benefits as disclosed in the financial statements

### **Principal Activities:**

The Company produces Extra Neutral Spirit, Kenya Methylated Spirit, Industrial Methylated Spirit, Active Dry Yeast and fresh Wet yeast from sugar cane molasses. The company also produces bottled spirits and carbon dioxide.

### **Results:**

The results of the Company for the year ended June 30, 2019 are as set out on page 28. Below is a summary of the loss made during the year.

During the year 2018/2019, the Company produced 11.120 million litres of alcohol, 70 tons of Active Dry Yeast, 805 tons of Wet Yeast and realized a turnover of Ksh. 1,212,743,816 million (2017/2018: 615,924,689 million). The operating loss before interest on loans was Kshs 225,660,111 (2017/2018: loss of Kshs. 422,345,446). However after charging interest on loan of Kshs. 278,947,083 ( 2017/2018: Kshs. 275,530,591), the Company registered a net loss of Kshs. 504,607,193 (2017/2018: loss of Kshs. 697,966,037). After charging corporate tax of kshs. 16,233,798 ( 2017/2018 Kshs. 16,846,580) the company registered a loss of Kshs.520,840,991 (2017/2018 loss of Kshs.14,812,617).

### **Dividends:**

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

### **Directors**

The members of the Board of Directors who served during the year are shown on page 6. In accordance with clause 101 of the Company's Memorandum of Association the directors are nominated by the shareholders.



**Auditors:**

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015, for the year ended June 30, 2019.

By order of the Board

SHARON CHERUIYOT  
**COMPANY SECRETARY**

Date:



### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Companies Act and Section 81 of the Public Finance Management Act, 2012 require the Directors to prepare financial statements in respect of the Company which give a true and fair view of the state of affairs of the Company at the end of the financial year and the operating results of the Company for that year. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the of the Company for and as at the end of the financial year ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act and PFM Act, 2012. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2019, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the 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.

#### **Approval of the financial statements**

The Company's financial statement were approved by the Board of Directors on September 26, 2019, and signed on its behalf by:

**MR. MOHAMED BULLE**  
**CHAIRMAN**

**FAITH NENE**  
**DIRECTOR**

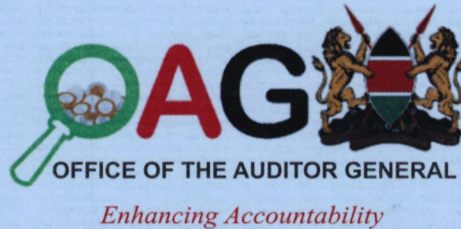


STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30TH JUNE 2019

	Notes	2019 Kshs	2018 Kshs
Sales / Turnover	6	1,212,743,816	615,924,689
Gain/(Loss) on Disposal of non financial assets	7	(18,342)	(698,500)
Other Income	8	18,833,711	27,928,145
<b>TOTAL REVENUES</b>		<b>1,231,559,185</b>	<b>643,154,334</b>
<b>OPERATING EXPENSES</b>			
Cost of Sales	9	1,158,542,569	791,674,162
Administrative costs	10	221,619,271	216,442,495
Selling and Administration Costs	11	6,821,922	6,225,917
Depreciation of property, plant and equipment	15 (A)	106,022,879	102,774,804
Amortization of intangible assets	16	5,446,437	5,446,437
<b>TOTAL OPERATING EXPENSES</b>		<b>1,498,453,078</b>	<b>1,122,563,815</b>
		<b>(266,893,892)</b>	<b>(479,409,481)</b>
Finance Income	12	41,409,669	57,070,465
Finance Costs	13	279,122,970	275,627,021
<b>OPERATING PROFITS / (LOSS)</b>		<b>(504,607,193)</b>	<b>(697,966,036)</b>
<b>INCOME TAX</b>			
Taxation Previous Year	14	0	86,520
Taxation Current Year	14	16,233,798	16,760,060
<b>TOTAL INCOME TAX</b>		<b>16,233,798</b>	<b>16,846,580</b>
<b>Net Profit / Loss after tax</b>		<b>(520,840,991)</b>	<b>(714,812,616)</b>

# REPUBLIC OF KENYA

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Website: www.oagkenya.go.ke



**HEADQUARTERS**  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON AGRO-CHEMICAL AND FOOD COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Agro-Chemical and Food Company Limited set out on pages 28 to 73, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and the statement of comparison of budget and actual amounts 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 35 of the Public Audit Act. 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.

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Agro-Chemical and Food Company Limited, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **Unsupported Interest on GoK Paid Loan**

The statement of financial position reflects an outstanding loans balance of Kshs.9,351,809,235 which, as disclosed in Note 26 to the financial statements, includes an amount of Kshs.658,541,997 being accrued interest payable on GoK loan at an annual interest rate of 13.49%. However, the loan agreement pertaining to the loan between the Company and The National Treasury was not provided for audit review.

Under the circumstances, the accuracy and validity of the outstanding interest on GoK paid loan balance of Kshs.658,541,997 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Agro-Chemical and Food Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical

requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there are no key audit matters to communicate in my report.

### **Other Matter**

#### **1. Budgetary Control and Performance**

During the year under review, the Company's revenue budget amounted to Kshs.2,013,884,000 against actual receipts of Kshs.1,272,270,476 resulting in a budget deficit of Kshs.741,613,524 or 37% of the budget. Similarly, the Company budgeted to spend a total of Kshs.774,491,559 against the actual expenditure of Kshs.628,445,355, resulting in an overall under-expenditure of Kshs.146,046,204 or 19% of the budget. The budget deficit and under-expenditure may have affected the planned activities of the Company.

#### **2. Material Uncertainty Relating to Going Concern**

The Company's accumulated deficit increased from Kshs.7,530,337,955 as at 30 June, 2018 to Kshs.8,051,178,947 as at 30 June, 2019 occasioned by the deficit realized during the year under review of Kshs.520,840,991. Further, the current liabilities of Kshs.9,837,285,548 exceeded current assets of Kshs.1,489,174,364 by Kshs.8,348,111,183, an indication that the Company is facing financial challenges. The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive support from the government and its creditors. However, in the absence of support from the government and creditors, the ability of the Company to continue as a going concern is doubtful.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

#### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that

govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Lack of an Approved Disaster Recovery Plan**

The Company has no Disaster Recovery Plan in place as stipulated in the ICT Policy Manual. This is contrary to Section 4.1.6 of the Company's ICT Policy Manual which states that disaster recovery procedures and contingencies shall be defined and established for critical systems such as the Database, Internet, Email and ERP Systems. The objective is to create capacity to restore services within acceptable period of time after a disaster such as major hardware or system failures or failures resulting from fire, flood and earthquakes.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the companies Act 2015, 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, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective 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 and for its assessment of the effectiveness of internal control.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

  
Nancy Gathungu  
**AUDITOR-GENERAL**

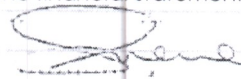
**Nairobi**


**13 October, 2021**

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30TH JUNE 2019

ASSETS	NOTES	2018-2019	2017-2018
		KSHS (12 Months)	KSHS (12 Months)
<b>NON-CURRENT ASSETS</b>			
Property, Plant and Equipment	15(A)	2,355,082,305	2,440,586,034
Intangible Assets	16	2,015,523	7,461,959
<b>CURRENT ASSETS</b>			
Inventories and Work In Progress	17	365,847,813	326,171,435
Receivables	18	509,633,346	405,123,715
Short Term Deposits	19	466,994,470	608,411,367
Cash and cash equivalents	20	146,698,735	224,189,674
		<u>1,489,174,364</u>	<u>1,563,896,190</u>
<b>TOTAL ASSETS</b>		<u>3,846,272,192</u>	<u>4,011,944,183</u>
<b>EQUITY</b>			
Share Capital	21	60,000,000	60,000,000
Capital Reserves	22	2,000,165,592	2,000,165,592
Accumulated deficit	23	(8,051,178,947)	(7,530,337,955)
<b>TOTAL EQUITY</b>		<u>(5,991,013,355)</u>	<u>(5,470,172,364)</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and Other Payables	24	445,325,710	364,737,418
Provisions	25	19,878,143	23,718,252
Loans	26	9,351,809,235	9,072,862,152
Tax Payable	27	20,272,460	20,798,723
<b>TOTAL LIABILITIES</b>		<u>9,837,285,548</u>	<u>9,482,116,545</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>3,846,272,192</u>	<u>4,011,944,181</u>

The financial statements were approved by the Board on September 26, 2019 and signed on its behalf by:

  
Mrs. Faith Nene  
Director

  
Mr. Muhammed Bulle  
Chairman of the Board

**Statement of Changes in Equity**

For the year ended 30th June 2017	Share Capital	Revaluation Reserve **	Revenue Reserves	Totals
	(Kshs)	(Kshs)	(Kshs)	(Kshs)
As at 1st July 2017	60,000,000	2,000,165,592	(6,815,525,338)	(4,755,359,746)
Profit for the year	-	-	(714,812,617)	(714,812,617)
Revaluation Reserve Gain				
<b>As at 30th June 2018</b>	<b>60,000,000</b>	<b>2,000,165,592</b>	<b>(7,530,337,955)</b>	<b>(5,470,172,363)</b>
As at 1st July 2018	60,000,000	2,000,165,592	(7,530,337,955)	(5,470,172,363)
Profit for the year			(520,840,991)	(520,840,991)
<b>As at 30th June 2019</b>	<b>60,000,000</b>	<b>2,000,165,592</b>	<b>(8,051,178,946)</b>	<b>(5,991,013,354)</b>



STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019

**STATEMENT OF CASHFLOWS FOR YEAR ENDED 30TH JUNE 2019**

		2019	2018
		KSHS.	KSHS.
<b>Cash Generated from / (Used in) Operations</b>			
Cash from operations	29	(181,610,278)	(158,585,433)
In Interest paid			
Dividends paid			
Taxation Paid	27	(16,760,060)	(26,044,982)
<b>Net Cash generated from / (Used in) operating activities</b>		<b>(198,370,339)</b>	<b>(184,630,415)</b>
<b>INVESTMENT ACTIVITIES</b>			
Purchase of assets	15(A)	(20,623,983)	(19,404,481)
Disposal of Asset - Sales Proceeds		86,491	614,000
<b>Net Cash generated from / (Used in) investing activities</b>		<b>(20,537,492)</b>	<b>(18,790,481)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Net Cash generated from / (Used in) financing activities</b>		-	-
Net Increase/(decrease) in cash and cash equivalents(a+b+c)		(218,907,831)	(203,420,896)
Cash and cash equivalent at the beginning of the year		832,601,027	1,036,021,922
<b>Cash and cash equivalent at the end of the Year</b>	<b>29(C)</b>	<b>613,693,196</b>	<b>832,601,027</b>

**ANNUAL REPORTS & FINANCIAL STATEMENTS  
FOR THE YEAR ENDING 30<sup>TH</sup> JUNE 2019**

**AGRO-CHEMICAL AND  
FOOD COMPANY LTD.**



**STATEMENT OF COMPARISON OF BUDGET AGAINST ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2019**

Revenue	Budget	Actual Outcome	Performance Difference	Performance %	Remarks
SALES	1,944,184,000	1,212,743,816	(731,440,184)	-38%	Unfavourable
PROFIT / (LOSS) ON SALE OF FIXED ASSETS	2,500,000	(18,342)	(2,518,342)	-101%	Unfavourable
INTEREST ON TREASURY BILLS & FIXED DEPOSITS	50,000,000	41,409,669	(8,590,331)	-17%	Favourable
RENT PAID BY EMPLOYEES	7,000,000	6,714,171	(285,829)	-4%	Unfavourable
MISCELLANEOUS INCOME	10,200,000	11,421,162	1,221,162	12%	Favourable
<b>TOTAL INCOME</b>	<b>2,013,884,000</b>	<b>1,272,270,476</b>	<b>(741,613,524)</b>	<b>-37%</b>	<b>Unfavourable</b>
<b>Expenses</b>					
<b>Cost of sales</b>					
Materials, Energy& Packing	882,686,523	791,688,300	90,998,222.70	90%	Favourable
Direct Salaries, Wages& Benefits	317,485,402	253,749,976	63,735,426.36	80%	Favourable
Plant Maintenance & Other Factory Overheads	82,526,000	76,022,914	6,503,086.46	92%	Favourable
Selling and Distribution	6,920,900	6,821,922	98,978.16	99%	Favourable
Excise Duty	86,400,000	37,081,379	49,318,620.60	43%	Favourable
Stock Adjustments- (Note 11)	0	0	0.00		
<b>TOTAL COST OF SALES / DIRECT COSTS</b>	<b>1,376,018,825</b>	<b>1,165,364,491</b>	<b>210,654,334</b>	<b>85%</b>	<b>Favourable</b>
<b>Gross Profit</b>	<b>637,865,175</b>	<b>106,905,985</b>	<b>(530,959,190)</b>		
<b>Expenses</b>					
ADMINISTRATION EXPENSES	349,497,024	221,795,158	127,701,865.49	63%	Favourable
Depreciation	129,046,417	111,469,316	17,577,100.95	86%	Favourable
INTEREST ON LOANS	295,948,118	278,947,083	17,001,035.53	94%	Favourable
CORPORATION TAX FOR PREVIOUS YEARS	0	0	0.00		
CORPORATION TAX FOR CURRENT YEAR	0	16,233,798	(16,233,798.00)		
<b>Total Expenditure</b>	<b>774,491,559</b>	<b>628,445,355</b>	<b>146,046,204</b>	<b>81%</b>	<b>Favourable</b>
<b>Surplus</b>	<b>(136,626,384)</b>	<b>(521,539,370)</b>	<b>(384,912,986)</b>		

An explanation of material differences between Budget and actual is as summarized below:

- a) **Sales**  
During the current year, the Company alcohol sales dropped intense competition from other distillers. The sale of ADY and Wet yeast also decreased.
- b) **Profit on disposal of fixed assets**  
The Company did not achieve the budgeted profit on disposal of fixed assets as a result of non disposal of assets earmarked for disposal.



## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019**

### 1. **GENERAL INFORMATION**

Agro Chemical and Food Company Limited was incorporated under the Kenyan Companies Act Cap 486. The address of its registered office is as follows:

#### **Registered Office**

Jeevan Bharati Building  
7<sup>th</sup> Floor, Harambee Avenue  
P.O. Box 41175 -00100  
Nairobi, Kenya  
Telephone 020-2230083

#### **Principal place of Business**

Muhoroni Factory  
Muhoroni Town  
P.O. Box 18-40107  
Muhoroni, Kenya  
Telephone +254 020 2334020/1

#### **Principal Activities**

The Company produces Extra Neutral Spirit, Kenya Methylated Spirit, Industrial Methylated Spirit, Active Dry Yeast and fresh Wet yeast from sugar cane molasses. The company also produces bottled spirits and carbon dioxide.

### 2. **STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

#### **Statement of Compliance**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies.



## NOTES TO THE FINANCIAL STATEMENTS (Continued) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity.

The financial statements have been prepared in accordance with the Company Act, PFM Act, the State Corporations Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

### Going Concern

The Company made a loss after tax of Kshs. 520,840,991 (2017/2018: Kshs. 714,812,617) during the year which was added to accumulated losses totaling Kshs. 8,051,178,947 (2017/2018: 7,530,337,955). In addition, the Company was in a net current liability position of Kshs. 8,348,111,183 (2017/2018: Kshs. 7,918,220,355). These and other conditions indicate doubt as to the going concern status of the company. Management has put in place the following measures to address the situation:

- Presented the Company restructuring proposal to the parent Ministry and National Treasury to restructure the Company balance sheet.
- Invested in new projects like Extra Neutral Spirit, Carbon dioxide and Compounded spirits to improve the profitability of the Company.
- Invested in the biogas driven boiler to reduce the cost of energy and fuel used in the boiler.
- Introduced austerity measures which have led to reduced costs.
- Prudent management of excess funds and investing the same in interest earning deposits.
- Utilized internally generated funds to finance its activities and investments as opposed to external borrowings.
- Introduced new product lines like Agro Plus and Mediplus spirits to improve the bottom line.

Based on the above, the directors believe that the company will continue in operational existence for at least 12 months from the date of these financial statements. The directors believe that it is appropriate to prepare the Company's financial statements on a going concern basis, which assumes that the Company will continue to meet its obligations as they fall due in the foreseeable future.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

- i) Relevant new standards and amendments to published standards effective for the year ended June 30, 2019.

Amendment/Interpretation to a standard	Effective date	Impact
IFRIC 23: Uncertainty over income tax treatment <i>(Issued 8 December 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019	<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul> <p><i>(The application of this amendment has been adopted by the Company)</i></p>

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

There were no new and revised IFRS that were effective in the current year that had an impact on the amounts reported in these financial statements.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

4. **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

ii) **Early adoption of standards**

The company did not early-adopt any new or amended standards in the year 2019.

5. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a) **Revenue Recognition**

Revenue is recognized to the extent that it is probable that future economic benefits will follow the Company and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the Company's activities net of Value added Tax (VAT), excise duty and discounts where applicable and when specific criteria have been met for each of the Company's activities as describe below:

- i) **Revenue from sale of spirits, yeast, carbon di-oxide and compounded spirits** are recognized in the year which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Finance Income** comprises interest receivable from bank deposit and is recognized in profit and loss on a time proportion basis using the effective interest rate method.
- iii) **Rental income** is recognized in the income statement as it accrues using the effective rental agreement.
- iv) **Other income** is recognized as it accrues.

b) **Property plant and Equipment**

All categories of property, plant and equipment are recorded at cost less accumulated depreciation and any impairment losses.

Certain categories of property plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued at periodic intervals usually after five years by independent external valuers. The basis of valuation is depreciated replacement cost.

Increases in the carrying amount arising on revaluation are credited to the statement of comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account. All other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items and are recognized in profit or loss in the income statement.

c) **Depreciation and impairment of property, plant and equipment**

Freehold land and capital work in progress are not depreciated. Capital works in progress relates mainly to costs of ongoing but incomplete works on buildings and other civil works and installations.

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 on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or re-valued amount to its residual value over its estimated useful life. The annual rates used are:

Leasehold Land	1.05%
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.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Furniture and fixtures	15% for re-valued assets and 10% for additions thereafter
------------------------	--

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than the estimated recoverable amount and an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

d) **Intangible Assets**

Intangible assets comprise the purchased computer software licences which are capitalized on the basis of costs incurred to acquire and bring to use the specific

software. These costs are amortized over the estimated useful life of the intangible assets from the year they are available for use usually over three years.

e) **Amortization and Impairment of Intangible assets**

Amortization is calculated on the straight-line basis over the estimated useful life of Computer Software of three years.

All Computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

f) **Inventories**

Stocks of 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.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

g) **Trade and other receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

h) **Taxation**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, at the reporting date in Kenya and generally taxable in income. 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 pertaining to the business income in view of losses available for carry forward of Kshs. 5,717,798,612) (2017/2018 5,802,116,842).

Taxation on the interest income and rental income as separate sources of income have been provided at 30%.

i) **Deferred tax**

Deferred tax liability is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying values for reporting purposes at the reporting date. 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.

j) **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash at bank, short term deposits on call and high liquidity investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Kenya and various commercial banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

k) **Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

l) **Trade and other payables**

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

m. **Retirement Benefits Obligations**

The company operates a defined contribution pension scheme for non-unionisable staff.

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

In accordance with the requirements of the Retirement Benefit Act 1997, the conversion approval by the Retirement Benefit Authority granted on 19<sup>th</sup> July 2004 and on 30, June 2011, the Trustee deed, Funds Management agreement, Investment policy agreement has been complied with. The accounts for 2018 have been audited and submitted to the Retirement Benefit Authority. The scheme had a total of 124 members composed of 104



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

active members and 20 deferred members. During the year, 9 members joined the scheme while 6 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 Minet Insurance Company.

The *scheme is funded by contributions from the employees and the Company*. The employees contribute 10.0% of their basic salaries while the sponsor contributes 10.0% which totals to 20.0% of the basic salary. The company's contribution to the scheme is charged to the income statement in the year to which they relate.

The company and its employees also contribute to the National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act.

The Company's contribution to the National Social Security Fund is limited to specific contributions legislated from time to time and is currently at Kshs. 200 per employee per month. The contributions are charged to the income statement in the year in which they relate.

n. **Contract Gratuity**

The company has a fixed term of service with some of the employees. A contract gratuity of 31% of the basic 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.

o. **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.

p. **Provision for staff leave**

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave not taken at the reporting date.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

q. **Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation ~~where items are re-~~measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. The current ruling exchange rate against the US\$ was Kshs. 103.7944 (2018 Kshs.101.150) as at the reporting date.

r. **Budget Information**

The Company original budget for FY 2018-2019 was approved by the Board of Directors and subsequently approved by the National Treasury in compliance with the Section 11 of the State Corporations Act, Cap 446 and section 4 Part (3), of the legal notice No. 93 on state corporations (performance contracting ) regulation 2004. The Company did not have any additional appropriations and the budget was implemented as approved during the financial year.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

of financial performance has been presented on Page on page 33 of these financial statements.

s. **Comparative figures**

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

t. **Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

u. **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.

v. **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

w. **Company as a lessor**

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

x. **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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

y. **Borrowing Costs**

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

z. **Related Parties**

The Company regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Company, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers. The Government of Kenya and The Mehta Group are also considered related parties by virtue of government support and Management support respectively,

aa. **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 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 reliably 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

bb. **Financial Instruments**

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.

cc. **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.

dd. **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 selling in the short term or if so, designated by management.

ee. **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.

ff. **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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

gg. **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.

hh. **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.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

ii. **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.

jj. **Dividends**

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

kk. **Provisions**

Provisions were raised and management determined an estimate based on the information available. An additional disclosure of these estimates of provisions is included in note 25. Provisions are made at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material. The Company has in place a bad debt provision where bad debts of over 5 years shall only be written off on the authority of the Board and shall be made only after all reasonable steps have been taken to recover the debt.

ll. **Contingent Liabilities**

The Entity does not provide for a contingent liability but discloses details of any contingencies in the notes to the financial statements since probability is assumed as possible and not payable unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

6. **SIGNIFICANT JUDGEMENTS SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.



NOTES TO THE FINANCIAL STATEMENTS (Continued)  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Estimates and assumption**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

**Useful lives and residual values**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the Asset based on the assessment of experts employed in the entity.
- The nature of the asset, its susceptibility and adaptability to changes in technology and process.
- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the assets.
- Changes in the market in relation to the asset.

**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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018-2019	2017-2018
<b>6. SALES/ TURNOVER</b>		
Spirit Sales	1,085,567,540	454,569,357
Carbon Dioxide Sales	3,676,914	2,381,187
Yeast Sales	123,499,362	158,974,145
	<b>1,212,743,816</b>	<b>615,924,689</b>
<b>7. GAINS / (LOSS) ON DISPOSAL OF NON FINANCIAL ASSETS</b>		
Disposal of Motor Vehicles	(18,342)	(698,500)
	<b>(18,342)</b>	<b>(698,500)</b>
<b>8. OTHER INCOME</b>		
Rent paid by employees	6,714,171	6,852,551
Miscellaneous Income	11,421,162	19,581,650
Contract Bottling	0	768,568
Finance Income	698,378	725,376
	<b>18,833,711</b>	<b>27,928,145</b>
<b>9. COST OF SALES</b>		
Materials, Energy and Packing	791,688,300	548,575,360
Direct Salaries, wages and benefits	253,749,976	244,009,523
Plant Maintenance and other Factory overheads	76,022,914	56,260,162
Excise Duty	37,081,379	36,356,400
EABL Contract Bottling Expenses	0	12,049
	<b>1,158,542,569</b>	<b>885,213,494</b>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**10. ADMINISTRATIVE EXPENSES**

Staff Costs	108,749,990	104,575,510
Advertising and Public relations	2,430	0
Audit Fees	780,000	780,000
Computer Expenses	8,044,726	7,115,587
Donations	0	23,800
Subscriptions and Newsletter	711,730	824,900
Guest House Expenses	1,529,687	1,406,038
Legal fees	372,600	1,773,197
Management Fees	30,727,979	31,555,761
Office equipment repairs	2,666,505	1,476,133
Motor Vehicle running Expenses	11,174,179	11,210,796
Postage, telegrams and telephone	1,354,683	951,966
Printing and stationery	2,760,232	2,215,333
Travelling and Accommodation	10,147,938	8,002,260
Marketing and Nairobi office expenses	14,148,469	16,095,192
Consultancy and performance contracting activities	1,033,120	390,000
Security Hire	7,944,805	7,393,459
Insurance and Licenses	9,251,219	14,449,107
Rent	2,149,254	2,449,251
Repairs and renewals ( Housing)	861,839	79,500
Recruitment expenses	653,509	327,313
Directors Honorarium		
Board and Committee Sitting Allowances	6,583,961	2,855,051
Write Back on Credit on Debtors balances	(670,192)	0
Bank Charges	640,609	282,257
Consultancy and professional services	0	210,085
	<b>221,619,271</b>	<b>216,442,495</b>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

<b>10. (B). STAFF COSTS</b>	<b>2018-2019</b>	<b>2017-2018</b>
Salary and allowances for Permanent employees	292,537,304	283,705,213
NSSF Contribution	847,500	672,400
Pension and Retirement Contributions	9,443,060	10,348,745
Leave pay and Gratuity	13,099,794	9,544,417
Other Staff Welfare costs	46,572,306	44,314,258
	<b>362,499,966</b>	<b>348,585,032</b>
Direct Salaries ,wages and benefits (Note 9)	253,749,976	244,009,523
Staff Costs (Note 10)	108,749,990	104,575,510
	<b>362,499,966</b>	<b>348,585,032</b>
<b>The average number of Employees at the end of the year was:</b>		
Permanent Employees - Management	102	101
Permanent Employees - Management	136	139
Temporary and Contract Employees	7	8
<b>Total</b>	<b>245</b>	<b>248</b>

Staff Costs are classified on the ratio of 70% for direct salaries, wages and benefits under Note 9 and 30% for indirect salaries, wages and benefits under administrative costs Note 10.

<b>11. SELLING AND DISTRIBUTION EXPENSES</b>	<b>2018-2019</b>	<b>2017-2018</b>
Vehicle Distribution Costs	3,443,821	4,090,321
Distribution Staff Costs	3,378,101	2,135,596
	<b>6,821,922</b>	<b>6,225,917</b>
<b>12. FINANCE INCOME</b>		
Interest on fixed deposits	41,409,669	57,070,465
	<b>41,409,669</b>	<b>57,070,465</b>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**13. FINANCE COST**

Exchange Loss / (Gains) Operations	175,887	96,430
Interest on loans	278,947,083	275,530,591
	<u>279,122,970</u>	<u>275,627,021</u>

**14. INCOME TAX EXPENSE / (CREDIT)**

**a) Current taxation**

Current Taxation based on Profit of Separate sources on  
income at 30%

Previous Year Taxation

Current tax prior year under / (over provision)

**Total**

16,233,798	16,760,060
0	86,520
<u>16,233,798</u>	<u>16,846,580</u>



**NOTE (15A) SCHEDULE OF PROPERTY, PLANT & MACHINERY AND EQUIPMENT**

COST / VALUATION	Leasehold Land Kshs.	Building, Housing & Factory Kshs.	Plant and Machinery Kshs.	Capital Work in Progress Kshs.	Motor Vehicles Kshs.	Computers and Accessories Kshs.	Furniture and Equipment Kshs.	Total Kshs.
COMPRISING								
As at 1st July 2018	56,500,000	426,441,912	2,012,328,170	78,486,235	54,658,502	6,237,241	10,503,189	2,645,155,250
Additions		11,851,461	71,110,146	22,712,755		690,459	47,401	106,412,222
Transfers				(85,788,239)				(85,788,239)
On Disposal						(152,241)		(152,241)
As at 30th June 2019	56,500,000	438,293,373	2,083,438,317	15,410,751	54,658,502	6,775,459	10,550,590	2,665,626,992
DEPRECIATION								
As at 1st July 2018	2,977,150	21,129,754	161,846,824		14,064,416	2,390,134	2,160,938	204,569,216
On Disposal						(47,408)		(47,408)
Charge for the Period July 2018- June 2019	1,488,575	10,957,334	84,009,533		7,132,136	1,350,092	1,085,209	106,022,879
As at 30th June 2019	4,465,725	32,087,088	245,856,357		21,196,552	3,692,818	3,246,147	310,544,687
NET BOOK VALUE								
As at 30th June 2019	52,034,275	406,206,285	1,837,581,960	15,410,751	33,461,950	3,082,641	7,304,443	2,355,082,305
As at 30th June 2018	53,522,850	405,312,158	1,850,481,346	78,486,235	40,594,086	3,847,107	8,342,251	2,440,586,034

Capital work in progress are Capital projects that were on going during the financial year and were not completed hence not capitalized. They are work in progress.



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

COST / VALUATION	Leasehold Land Kshs.	Miscellaneous property	Building, Housing & Factory Kshs.	Plant and Machinery Kshs.	Capital Work in Progress Kshs.	Motor Vehicles Kshs.	Computers and Accessories	Furniture and Equipment Kshs.	Total Kshs.
COMPRISING									
As at 1st July 2017	56,500,000	0	418,748,192	2,000,242,410	80,983,897	54,559,652	5,713,430	10,503,189	2,627,250,770
Additions			7,693,721	12,085,761	19,404,480	1,598,850	523,811		41,306,622
Transfers					(21,902,142)				(21,902,142)
On Disposal						(1,500,000)			(1,500,000)
As at 30th June 2018	56,500,000	0	426,441,912	2,012,328,170	78,486,235	54,658,502	6,237,241	10,503,189	2,645,155,250
DEPRECIATION									
As at 1st July 2017	1,488,575		10,468,705	80,681,697		7,119,780	1,142,686	1,080,469	101,981,912
On Disposal						(187,500)			(187,500)
Charge for the Period July 2017- June 2018	1,488,575		10,661,049	81,165,127		7,132,136	1,247,448	1,080,469	102,774,804
As at 30th June 2018	2,977,150	0	21,129,754	161,846,824		14,064,416	2,390,134	2,160,938	204,569,216
NET BOOK VALUE									
As at 30th June 2018	53,522,850	0	405,312,158	1,850,481,346	78,486,235	40,594,086	3,847,107	8,342,251	2,440,586,034
As at 30th June 2017	55,011,425	0	408,279,487	1,919,560,713	80,983,897	47,439,872	4,570,744	9,422,720	2,525,268,858



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**16. INTANGIBLE ASSETS**

**COST**

As at July 1, 2017	30,097,992	30,097,992
Additions		
Disposals		

<b>As at June 30, 2018</b>	<b>30,097,992</b>	<b>30,097,992</b>
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**AMORTISATION**

As at July 1, 2018	22,636,032	17,189,595
Charge for the year	5,446,437	5,446,437
Disposals		
Impairment loss		

<b>As at June 30, 2019</b>	<b>28,082,469</b>	<b>22,636,032</b>
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**NET BOOK VALUE**

<b>As at June 30, 2019</b>	<b>2,015,523</b>	<b>7,461,959</b>
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**17. INVENTORIES AND WORK IN PROGRESS**

	<b>2018-2019</b>	<b>2017-2018</b>
Finished Goods	121,905,188	117,216,892
Raw materials and spares	239,003,380	200,181,114
Work In Progress	4,939,245	8,773,429
	<b>365,847,813</b>	<b>326,171,435</b>

**18. TRADE AND OTHER RECEIVABLES**

Trade Debtors	335,523,182	288,188,640
Pre-payments	12,369,105	11,481,009
Creditors with debit Balances	77,958,400	52,788,754
Other debtors	148,276,899	117,829,744
Total	<b>574,127,585</b>	<b>470,288,147</b>
Provision for Bad and Doubtful debts	(64,494,240)	(65,164,432)
	<b>509,633,346</b>	<b>405,123,715</b>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**18.(a) TRADE AND OTHER RECEIVABLES**

Trade receivables (note 18(b))	335,523,182	288,188,640
Deposits and prepayments	12,369,105	11,481,009
Creditors with debit Balances	77,958,400	52,788,754
Staff receivables (note 18 (c))	18,025,634	18,958,077
Other receivables	87,410,182	98,871,667
Gross trade and other receivables	531,286,502	470,288,147
Other: Provision for bad and doubtful receivable	(64,494,240)	(65,164,432)
Net trade and other receivables	466,792,262	405,123,715

**18. (b)TRADE RECEIVABLES**

Gross trade receivables	335,523,182	288,188,640
Debtors with Credit Balances	(182,987,650)	(74,598,156)
	152,535,532	213,590,484

At June 30, the ageing analysis of the gross trade receivables was as follows:

Less than 30 days	80,134,783	137,470,960
Between 30 and 60 days	9,531,187	(5,379,378)
Between 61 and 90 days	17,664,704	7,758,174
Between 91 and 120 days	(3,359,014)	10,154,079
Over 120 days	48,563,872	63,586,649
	152,535,532	213,590,484

**18. (c)STAFF RECEIVABLES**

Gross staff loans and advances	18,957,215	18,957,215
Provision for impairment loss		
	18,957,215	18,957,215
Less: Amounts due within one year	18,957,215	18,957,215
Amounts due after one year	0	0



## NOTE TO THE FINANCIAL STATEMENTS

### 19.SHORT TERM DEPOSITS

	2018-2019	2017-2018
National Bank of Kenya	287,090,828	448,775,381
Kenya Commercial Bank	179,903,642	159,635,986
	<u>466,994,470</u>	<u>608,411,367</u>

The average effective interest rate on the short term deposits as at June 30,2019 was 8.25%  
2018 was 8.55%

### 20. BANK AND CASH BALANCES

Cash at Bank	145,753,474	223,533,385
Cash in Hand	945,261	656,289
	<u>146,698,735</u>	<u>224,189,674</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. (b) Detailed analysis of cash and Cash Equivalents

Financial Institution	Account Number	2018-2019	2017-2018
<b>a) Current Account</b>			
National Bank Current Account Kisumu	01020000782601	80,397,519	38,009,649
Barclay Current Account - Kisumu	1009560	44,872,605	52,388,506
National Bank Current Account Harambee Avenue	1020000782600	1,317,236	25,440,345
Kenya Commercial Bank School Account- Muhoroni	1104055325	6,600,665	4,880,029
Kenya Commercial Bank -Muhoroni	110-4043-084	8,644,719	99,572,687
<b>Sub Total</b>		<b>141,832,745</b>	<b>220,291,217</b>
<b>b) On Call Deposits</b>			
<b>Sub Total</b>			
<b>c) Fixed Deposits Accounts</b>			
National Bank of Kenya		287,090,828	441,940,271
KCB		179,903,642	159,635,986
National Bank of Kenya		0	6,835,110
<b>Sub Total</b>		<b>466,994,470</b>	<b>608,411,367</b>
<b>d) Foreign Currency Account (US\$)</b>			
Nbk US Dollar Account- Harambee Avenue	0200007826500	2,949,029	3,240,189
<b>Sub Total</b>		<b>2,949,029</b>	<b>3,240,189</b>
<b>e) Savings Account</b>			
National Bank of Kenya Savings Account Kisumu	1241000782600	971,701	4,620
<b>Sub Total</b>		<b>971,701</b>	<b>4,620</b>
<b>f) Others- Cash in Hand</b>			
Petty cash - Nairobi Office		188,689	184,737
Petty Cash Muhoroni		619,692	410,819
Petty Cash School		136,880	60,733
<b>Sub Total</b>		<b>945,261</b>	<b>656,289</b>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**21. ORDINARY SHARE CAPITAL**

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

**22. REVALUATION /CAPITAL RESERVES**

Revaluation reserve relate to the revaluation of property plant and equipment. As indicated in the statement of changes in equity, this is stated after the transfer of excess depreciation net of related tax to the retained earnings. Revaluation reserve in not distributable.

**23. RETAINED EARNINGS/ACCUMULATED DEFICIT**

Retained earnings represent amounts available for distribution to the Company's shareholders. Undistributed retained earnings are utilized to finance the Company's business activities

**24. TRADE AND OTHER PAYABLES**

Trade Payables	57,641,909	56,633,536
Debtors with credit Balances	182,987,650	74,598,156
Other Payables	204,696,152	233,505,727
	<u>445,325,711</u>	<u>364,737,419</u>

**25. PROVISION**

Balance as at the beginning for staff Leave	17,872,949	19,792,306
Balance as at the beginning for Service Gratuity	5,845,302	5,964,244
Provision for staff Leave at the beginning of the year	17,741,481	17,872,949
Provision for Service Gratuity at the beginning of the year	2,071,562	2,293,696
Staff Leave paid during the year	(17,872,949)	(19,792,306)
Service Gratuity paid during the year	(5,780,202)	(2,412,638)
	<u>19,878,142</u>	<u>23,718,251</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

<b>26. BORROWINGS</b>	<b>Interest Rate</b>		
GOK ON-LENT	7%	2,941,884,000	2,941,884,000
Loans interest deferred		5,751,383,238	5,545,451,358
Interest on GOK paid Loan	12.47 : 2017/018 13.49%	658,541,997	585,526,795
		<b>9,351,809,235</b>	<b>9,072,862,152</b>

**26. (B) BORROWINGS MOVEMENT**

Balance at beginning of the year	9,072,862,153	8,797,331,562
Interest For the period	278,947,083	275,530,591
Repayment of Loan	0	0
Balance at the end of the year	<b>9,351,809,235</b>	<b>9,072,862,153</b>
Less : Amounts due within one year (Current year portion)	9,351,809,235	9,072,862,153
Amounts due after one year (Non-Current year portion)	0	0

The Company has an outstanding loan of Kshs. 9,351,809,235 with the Government of Kenya comprising of the principal GOK Guaranteed loan of Kshs. 2,941,884,000 and interest thereon of Kshs. 5,545,451,358 charged at 7%. The second loan is the GOK paid loan where the Company has already paid the principal. The balance of Kshs. 658,541,997 is the interest charged on the balance interest at the average ruling lending rate during the year. The interest rate for the current year is 12.47% (2017/2018: 13.49%)

The loans have been classified as current liabilities because they are due, and the Government of Kenya can recall the loan within the 12 months of trading. The Company “does not have a conditional right to defer settlement of the liability for at least twelve months”. Further to this for an entity to classify a liability as non-current, the period of the repayment of the liability should be specific and backed by a legal document say a contract of borrowing which in this case is lacking.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**27. TAX PAYABLE**

Tax Brought Forward	20,798,721	30,083,643
Income tax charge	16,233,798	16,760,060
Tax Paid	(16,760,060)	(26,044,982)
	<u>20,272,459</u>	<u>20,798,721</u>

**28. CAPITAL COMMITMENTS**

Authorized and Contracted	40,000,000	60,857,600
Authorized but not Contracted	15,951,000	108,133,100
TOTAL	<u>55,951,000</u>	<u>168,990,700</u>

Capital Commitments relate to Capital projects that were budgeted for and authorized to be spent during the year. Projects authorized and contracted were awarded while those authorized but not contracted were not executed and have no liability arising.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**29. NOTES TO THE STATEMENT OF CASHFLOWS**

	2018	2017
	KSHS.	KSHS.
<b>a) Reconciliation of operating profit/(loss) to cash generated from/ (used in) operations</b>		
Operating Profit/(Loss)	(504,607,193)	(697,966,037)
Adjustment for items not involving movement of funds:		
Interest on Loans	25 (B) 278,947,084	275,530,592
Depreciation	15(A) 106,022,879	102,774,804
Amortization	16 5,446,437	5,446,437
Profit on Disposal of property Plant and Equipment	7 18,342	698,500
Tax Charged Current year	14 (16,233,798)	(16,760,060)
Tax Charged Previous year	14 -	(86,520)
<b>Net Operating Profit before changes in working capital</b>	<b>(130,406,250)</b>	<b>(330,362,284)</b>
<b>changes in working capital:</b>		
Increase/ (Decrease) in working Capital		
Increase in inventories	(39,676,378)	(61,469,314)
Increase in receivables	(104,509,631)	(91,841,811)
Increase in payables	80,588,292	310,366,215
Staff Leave payable current year	17,741,481	17,872,949
Staff Leave paid	(17,872,949)	(19,792,306)
Gratuity Paid	(5,780,202)	(2,412,638)
Gratuity Payable Current year	2,071,562	2,293,696
Taxation Current year	16,233,798	16,760,060
Tax Payable		
<b>Net Cash generated / (used in) operations</b>	<b>(181,610,278)</b>	<b>(158,585,433)</b>
<b>b) Analysis of changes in Loans</b>		
Balance as at the beginning of the year	9,072,862,153	8,797,331,562
Receipts during the year	-	-
Repayments during the year	-	-
Accrued Interest	278,947,083	275,530,591
<b>Balance at the end of the year</b>	<b>9,351,809,235</b>	<b>9,072,862,153</b>
<b>c) Analysis of Cash and Cash Equivalent</b>		
Short term deposits	466,994,470	608,411,367
Cash at Bank	145,753,474	223,533,385
Cash in Hand	945,261	656,289
<b>Balance as at the end of the year</b>	<b>613,693,206</b>	<b>832,601,040</b>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**30. CONTINGENT LIABILITY**

- i) 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 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.

	2019	2018
a) Kenya Revenue Authority- Tax demand	634,644,435	634,644,435
	<b>634,644,435</b>	<b>634,644,435</b>

- ii) The Company has bank guarantees with National Bank of Kenya on account of suppliers who do not offer credit facilities to the Company for their services. The directors are of the opinion no liability will arise in relation to the guarantees

	2019	2018
i) Bank Guarantees		
a) Kenya Airways	500,000	500,000
b) Kenya Revenue Authority		38,836,350
c) Toyota Kenya		150,000
	<b>500,000</b>	<b>39,486,350</b>

**31. RELATED PARTY TRANSACTIONS**

**a) Government of Kenya**

The Government of Kenya owns 56% of the Company shareholding through its shareholders ADC 28% and ICDC 28%. The Company also has an outstanding loan of Kshs. 9,351,809,235 with the government of Kenya.

**b) The Mehta Group Limited**

Mehta Group (IIC) owns 44% of shareholding in ACFC and such a related party. The company provides management services to the company in line with the Management Contract in place between The Government of Kenya and the Mehta Group Limited. The transaction with this party during the year relates to payment of management fees.

**c) Other related parties**

Other related parties include

- i) Key Management
- ii) Board of Directors



NOTES TO THE FINANCIAL STATEMENTS (Continued)

<b>Transactions with related parties</b>	2019	2018
	Kshs	Kshs
i) Government of Kenya		
Government of Kenya Loan	9,351,809,235	9,072,862,152
	2019	2018
	Kshs	Kshs
ii) The Mehta Group Limited		
Management Fees	30,727,979	31,555,761
	2019	2018
	Kshs	Kshs
Key Management remuneration		
Directors	6,583,961	2,281,600
Resident Director and Chief executive	1,171,632	935,930
Key Management remuneration	27,395,973	27,638,757
	<b>35,151,566</b>	<b>30,856,287</b>
<b>Due from related parties</b>		
Due from Government of Kenya	NIL	NIL
Due from The Mehta Group	NIL	NIL
	NIL	NIL
Total Due	NIL	NIL
	2019	2018
	Kshs	Kshs
<b>Due to related parties</b>		
Due to Government of Kenya	9,351,809,235	9,072,862,152
Due to The Mehta Group	NIL	NIL
Due to senior management staff	NIL	NIL
Total Due	9,351,809,235	9,072,862,152



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Compensation for the Resident Director and Chief executive relates to compensation paid for his local travel when executing official duties. The salary for the chief executive is paid by the management agent under the management Contract hence not recognized in the financial statements.

### 32. FINANCIAL 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 and risk 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 is 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



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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.

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2019 and 30 June 2018 is made up as follows:

<u>Credit Risk</u>	Fully Performing	Past due	Impaired	Total
	Kshs	Kshs	Kshs	Kshs
<b>As at June 30, 2019</b>				
Cash and cash equivalents	612,747,944	48,563,872		661,311,816
Trade receivables	152,535,532			152,535,532
<b>Total</b>	<b>765,283,476</b>	<b>48,563,872</b>	<b>0</b>	<b>813,847,348</b>
<b>As at June 30, 2018</b>				
Cash and cash equivalents	831,944,752	63,586,649		895,531,401
Trade receivables	213,590,484			213,590,484
<b>Total</b>	<b>1,045,535,236</b>	<b>63,586,649</b>	<b>0</b>	<b>1,109,121,885</b>

The bank balances are fully performing.

**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. This results in exposure to exchange rate currency fluctuations. The balances impacted in this regard are the bank balances and accruals denominated in foreign currency.

As at June 30, 2019 an increase/decrease of 5 Percentage points would have resulted in an increase/decrease in pre-tax profits by Kshs. 160,250 (2017/2018: 162,001). This risk is attributed to the Bank deposits of US\$. 32,033.50 held in foreign currency.

**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 monthly by assessing the expected changes in different portfolios.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

As at 30<sup>th</sup> June 2019 an increase /decrease of 5 percentage points would have resulted in an increase/decrease in pre-tax profits of kshs. 5,208,960 (2017/2018 Kshs. 3,479,935.55).

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

The Company invest in fixed deposits of its surplus funds. The average interest rate during the year was 8.25% (year 2017/2018 8.5%). An increase/decrease in the interest rate during the year *would have resulted in an increase or decrease of Kshs. 124,229 (2017/2018: 2,853,523).*

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.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

Liquidity Risk

As at 30th June 2019	Less than 1 Month Kshs	Between 1 to 3 months Kshs	Over 3 months Kshs	Total Kshs
Trade Payables	445,325,710			445,325,710
Current portion of borrowings	9,351,809,235			9,351,809,235
Provisions	19,878,143			19,878,143
Tax Payable	16,233,798			16,233,798
<b>Total</b>	<b>9,833,246,885</b>	<b>0</b>	<b>0</b>	<b>9,833,246,885</b>
As at 30th June 2018				
Trade Payables	364,737,418			364,737,418
Current portion of borrowings	9,072,862,152			9,072,862,152
Provisions	23,718,252			23,718,252
Tax Payable	16,760,060			16,760,060
				0
<b>Total</b>	<b>9,478,077,882</b>	<b>0</b>	<b>0</b>	<b>9,478,077,882</b>

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, and market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Company's objective is to manage operational risk 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.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Review of compliance with company standards is done on a continuous basis by senior management and internal audit department

**e. Capital Risk Management**

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the company consists of debt which includes borrowings disclosed in Note 25 as well as retained earnings and issued capital as presented on note 22.

Consistent with others in the industry, the company monitors capital on basis of the gearing ratio.

This ratio is calculated as net debt ratio divided by the equity while Net debt is calculated as total borrowings less cash and cash equivalent.

	2019	2018
	Kshs	Kshs
Revaluation/ Capital reserve	2,000,165,592	2,000,165,592
Retained earnings	(8,051,178,947)	(7,530,337,955)
<b>Total Funds</b>	<b>(6,051,013,355)</b>	<b>(5,530,172,364)</b>
Total borrowings	9,351,809,235	9,072,862,152
Less cash and bank balances	613,693,206	832,601,040
<b>Net debt / (excess cash and cash equivalents)</b>	<b>8,738,116,029</b>	<b>8,240,261,112</b>
<b>Gearing</b>	<b>-69%</b>	<b>-67%</b>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**33. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASE**

The total future minimum lease payments due to third parties under Non-cancellable operating leases for rental of the company's Nairobi offices which fall due as follows:

	2019	2018
	Kshs	Kshs
Payable within one year	1,946,586	1,946,586
Payable after one year but not later than 5 years	5,659,225	6,318,637
<b>Total</b>	<b>7,605,811</b>	<b>8,265,223</b>

The current lease will expire on June 30, 2022

**34 INCORPORATION**

The Company is incorporated in Kenya under the Kenyan Companies Act and domiciled in Kenya.

**35. EVENTS AFTER THE REPORTING PERIOD**

There were no significant material adjusting and non-adjusting events after the reporting period.

**36. CURRENCY**

The financial statements are presented in Kenya Shillings (Kshs.)



### PROGRESS REPORT ON FOLLOW UP OF AUDITORS RECOMMENDATIONS

The following is the summary of issues raised by the external auditor and management comments that were provided to the auditor for the year ended June 30, 2018. We have nominated the focal persons to resolve the various issues as shown below in the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit report	Issue/ Observations from the auditor	Management Comments	Focal Point person to resolve the issue (Name and Designation)	Status (Resolved / Not Resolved)	Time Frame (Put date when you expect the issue to be resolved)
1	<p>The statement of financial position for the year ended 30 June 2018 indicates that the cash and cash equivalents balance was Kshs.224,189,674. However, there were unrepresented cheques totalling Kshs.362,140 that had not been presented for payment for a period of six months and therefore were stale. Further, the bank confirmation certificate for National Bank account number 01020000782600 had an amount of Kshs.25,011,145 while the bank statement reflected a figure of Kshs.25,440,345 as at 30 June 2018 leading to an unreconciled variance of Kshs.429,200. In addition, there were unidentified direct bank deposits of Kshs.1,396,050 in the bank statements.</p> <p>Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.224,189,674 could not be ascertained as at 30 June 2018.</p>	<ul style="list-style-type: none"> <li>The unrepresented cheques of Kshs. 362,140 and appearing in the bank reconciliation have been cancelled since they were not presented and therefore stale.</li> <li>The unreconciled figure of 429,200 related to a cheque that was banked in NBK Harambee Avenue and had not matured since the value date was 2<sup>nd</sup> July 2018 hence the difference between the certificate of balance and the bank statement. The cheque was credited in the bank account.</li> <li>The unidentified bank deposits of Kshs. 1,396,050 have been identified and posted in the banks after getting confirmations from the banks on who banked the cheques.</li> </ul> <p>The variances between the stock count sheets and the Financial statements valuation reports were reconciled. As explained to the auditors, the variances arose due to mis counting by the stock taking team especially stocks in the bottling plant that were not counted.</p>	Financial Controller	Resolved	By June 30, 2019
2	<p>The statement of financial position for the year ended 30 June 2018 indicates that the inventories and work in progress balance was</p>	<p>The variances between the stock count sheets and the Financial statements valuation reports were reconciled. As explained to the auditors, the variances arose due to mis counting by the stock taking team especially stocks in the bottling plant that were not counted.</p>			

<p>3</p>	<p>Kshs 326,171,435. However, a comparison of the stock quantities in valuation report used in the preparation of the financial statements and the actual physical stock count sheets revealed discrepancies of the stock.</p> <p>Stock take records for molasses that had a value of Kshs.65,787,480 as at 30 June 2018 were not availed for audit review and items of chemicals valued at Ksh.5,440,148 and included in the valuation reports could not be traced to the stock take sheets provided for audit review.</p> <p>The statement of financial position for the year ended 30 June 2018 indicates a receivables balance of Kshs 405,123,715. However, despite an increase in receivables from Kshs.313,281,903 as 30 June 2017 to Kshs.405,123,715 as at 30 June,2018 The provision of bad and doubtful debts remained the same at Kshs 65,164,432. Further, an aged analysis of debtors as at 30 June 2018 was not availed for audit review. In addition, note 18 to the financial statements indicates that trade debtors were Kshs.288,188,640. However, the schedule availed to support this amount had a total figure of Kshs.213,590,483 resulting into an unexplained variance of Kshs 74,598,156.</p> <p>Consequently, the accuracy and completeness of the receivables balance of</p>	<p>The trade receivables as per note 18, were 405,123,715. The increase in receivables from Kshs. 313,281,903 is due to increase in the account balance of UDV Limited. The customer purchased huge stocks of spirit in June 2018 and his debt increased from 6,029,801.85 as at June 30, 2017 to Kshs. 163,444,854.48 as at June 30, 2018. The provision for bad and doubtful debts as the debt was not doubtful.</p> <p>Note 18 to the financial statements indicates that the trade debtors are 288,166,640. This is the gross debtors before adjustment of debtors with credit balance of Kshs. 74,598,156 translating a net debtors balance of Kshs. 213,590,483 as per Note 18(B). The ageing analysis is attached.</p>			
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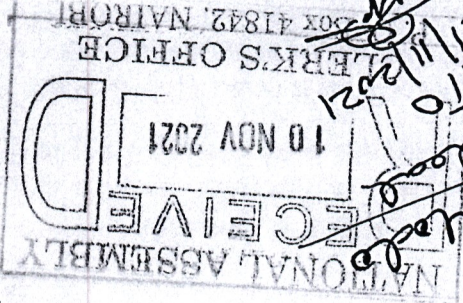
	Kshs.405,123,715 could not be ascertained as at 30 June 2018.				
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OUR REF: NG-CDFB/CEO/KNAVOL V (53)

Mr. Michael Siala (EBS),  
 Clerk of the National Assembly,  
 Parliament Buildings,  
 Parliament Road,  
 P O Box 41842-00200,  
 NAIROBI

Dear Sir,



RE: SUBMISSION OF NOMINEES TO THE NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND COMMITTEES FOR NATIONAL ASSEMBLY APPROVAL (KIAMBAA CONSTITUENCY)

Reference is made to the above matter.

Section 43(1.) and (2.) of the National Government Constituencies Development Fund (NG-CDF) Act 2015 as amended in 2016 states that:

"(1) there is established a National Government Constituency Development Fund Committee for every constituency.

(2) Each Constituency Committee shall comprise—


- (a.) The national government official responsible for coordination of national government functions;
- (b.) Two men each nominated in accordance with subsection (3), one of whom shall be a youth at the date of appointment;
- (c.) Two women nominated in accordance with subsection (3), one of whom shall be a youth at the date of appointment;
- (d.) one person with disability nominated by a registered group representing persons with disabilities in the constituency in accordance with subsection (3);
- (e.) two persons nominated by the constituency office established under Regulations made pursuant to the Parliamentary Service Act";

Further, Subsections (3), (4) and (10) provide that: -

"(3.) the seven persons referred to in subsection (2) (b), (c), (d) and (e) shall be selected in such manner and shall have such qualifications as the Board may, by regulations, prescribe.



Handwritten notes: "November 9, 2021", "Hto 10/11/2021", "Please do as Mr. Muna", "DL & Dimp", "10/11/21", "N se clear", "CMA".

 <b>THE NATIONAL ASSEMBLY</b> <b>PAPERS LAID</b>	
<b>DATE: 11 NOV 2021</b>	
<b>TABLED BY:</b>	<b>DAY:</b>
<b>CLERK-AT THE-TABLE:</b>	

Mr. Saitoti Torome,  
 Principal Secretary,  
 State Department of Planning,  
 The National Treasury and Ministry of Planning,  
 P.O. Box 30005-00100,  
**NAIROBI**

Copy to:

**YUSUF MBUNO**  
**CHIEF EXECUTIVE OFFICER**

  
 Yours

NO.	NAME	CATEGORY	STATUTORY PROVISION FOR ASSUMPTION OF POSITION
1.	George Wambui	Muiruri	Male Youth Representative
2.	Geoffrey Ndihi	Mukora	Male Adult Representative
3.	Isabell Murugi	Kinyanjui	Female Youth Representative
4.	Elizabeth Wambui	Citan	Female Adult Representative
5.	Anne Nduta Karuki	Living with Disability	Representative of Persons
6.	Jackson Mbugwa	Kinyanjui	Nominee of the Constituency
7.	Rose Wanjiku Nganga	Office (Female)	Nominee of the Constituency

### 1. KIAMBAA CONSTITUENCY

Pursuant to the above, Kiambaa Constituency has filled vacancies that occurred in the current membership of their committees by re-convening Selection Panels in accordance with Regulation 5 of the Regulations to the NCCDF Act.

In accordance to Sections 43(4) and 43(8) of the NG-CDF Act of 2015 & Regulation 5(10), which provide for National Assembly approval of the nominees for re-appointment or fresh appointment to the National Government Constituencies Development Fund Committees, prior to gazettelement by the National Government Constituencies Development Fund Board, as afore stated, we hereby forward the following names for approval by the National Assembly as appear hereunder:-

- (4.) The names of the persons selected under subsection (3) shall be submitted by the Board to the National Assembly for approval before appointment and gazettelement by the Board
- (10.) Whenever a vacancy occurs in the Constituency Committee by reason of resignation, incapacitation or demise of a member the vacancy shall be filled from the same category of persons where the vacancy has occurred within a period of thirty days"