

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
AGRO-CHEMICAL AND FOOD COMPANY
LIMITED

PARLIAMENT
OF KENYA
LIBRARY

FOR THE YEAR ENDED

30 JUNE 2017

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 05 DEC 2018

DAY:
Wednesday

TABLED
BY:

Hon. Aden Duale M.P.
Leader of Majority Party

CLERK-AT
THE TABLE:

Bachant Karu
Principal Clerk Assistant 1



**AGRO-CHEMICAL AND FOOD
COMPANY LIMITED**

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2017

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



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COMPANY INFORMATION

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 and still 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.

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.



Directors

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

ORGANISATION

NAME

Agricultural Development Corporation

Mr. Richard K. Aiyabei –
Chairman

Agricultural Development Corporation

Mr. Maxwel Mugonyi

Industrial and Commercial Development Corporation

Mr. Joseph C. Mwaura

Industrial and Commercial Development Corporation

Mr. Dismas J.O. Oyieko, HSC

International Investment Corporation

Mr. Suresh C. Sharma

International Investment Corporation

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

Ministry of Agriculture, Livestock & Fisheries
(State Department of Agriculture)

P.S (Alternate: Mr
Abraham Barno)

The National Treasury

C.S. (Alternate: Mr. Paul
Kiagu)

Resident Director & Chief Executive:

Mr. Ashok Agrawal

Company Secretary:

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

Registered Office

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

Principal place of Business

Muhoroni Factory
Muhoroni Town
P.O. Box 18-40107
MUHORONI
Telephone +254 020 2334020/1
Email. amin@acfc.co.ke



Bankers:

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

Independent Auditors:

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

Principal Legal Advisers:

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

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

Managing Agent:

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

Senior Executives:

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



VISION AND MISSION STATEMENTS

OUR VISION

To be a global leader in the production and marketing of diversified range of a quality spirits, yeast and related products.

OUR MISSION

To produce and market a wide range of world class products through a cost effective, innovative and environmentally friendly technologies, satisfying the customer needs, maximizing shareholders returns and meeting employees aspirations.



BOARD OF DIRECTORS

FULL NAMES OF CHAIRMAN, CEO & BOARD OF DIRECTORS	DESIGNATION (e.g. CHAIRMAN, CEO, MEMBER)	DATE OF APPOINT-MENT	ACADEMIC PROFESSIONAL QUALIFICATIONS	DATE OF BIRTH	EXPERIENCE (YEARS WITH ACFC)
MR. RICHARD K. AIYABEI	CHAIRMAN	27.01.2016	BSC, Agric, M.Sc. in Agronomy, Dip. Farm Engineering	1966	2
MR. MAXWEL MUGONYI	MEMBER	10.04.2014	B. Com (Accounting) , MBA, (CPAK)	1967	3
MR. ASHOK AGRAWAL	CEO	01.11.2011	B.Tech. (Chem. Engineering)	1962	7
MR. JOSEPH .C. MWAURA	MEMBER	20.01.2006	B.Com. (Accounting) CPA(K)	1962	12
MR. DISMAS.J.O. OYIEKO	MEMBER	01.07.2011	B.Com (Accounting), MSc (Finance)	1963	7
MR. M.N. MEHTA	MEMBER	15.12.1982	Entrepreneur/Busi ness Executive	1935	36
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)	1939	24
MR. NANALAL .P. SHETH	MEMBER	18.07.2009	Barrister of Law, Advocate	1930	9
MR. ABRAHAM BARNO	MEMBER	14.07.2014	B.Sc. Agric, MSc. (Agric Rural Dev.)	1961	3
MR. PAUL KIAGU	MEMBER	18.11.2015	B.A (Econs) M.sc (Econs)	1969	2



SENIOR EXECUTIVES

NAME	POSTION AND QUALIFICATION	DATE OF BIRTH
1. ASHOK AGRAWAL	CHIEF EXECUTIVE OFFICER B. Tech. (Chem. Engineering)	26 th January 1959
2. OWITI EDWIN OWINO	FINANCIAL CONTROLLER (B.ED , CPA,K)	8 th August 1976
3. NJOROGE JOSEPH NGURE	WORKS MANAGER (Bsc FOOD TECHNOLOGY, MBA)	22 nd August 1958
4. OGUYA CALEB ODHIAMBO	MARKETING MANAGER (Bsc.,DIP(MICROBIO) MBA (M.S.K)	1958
5. AWINO SOLOMON OKEYO	COMPANY SECRETARY (LLB, CPS)	25 th July 1971



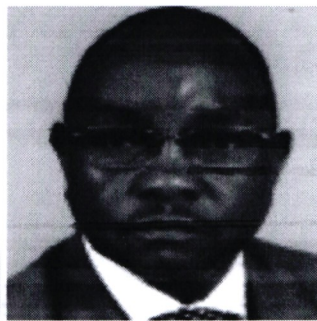
Board of Directors



Mr. Richard K. Aiyabei



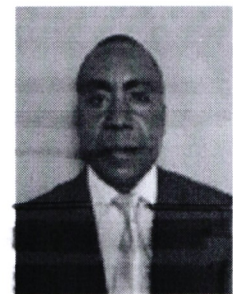
Mr. Maxwell Mugonyi



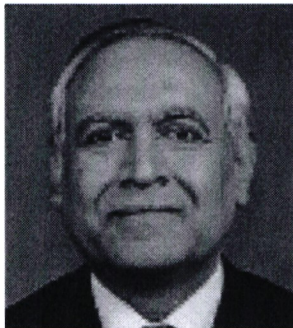
Mr. Joseph C. Mwaura



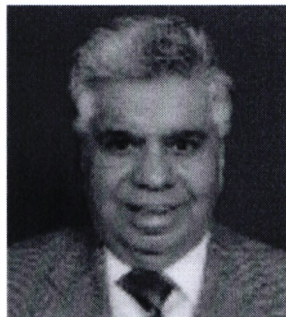
Mr. Dismas J. O. Oyieko (HSC)



Mr. Paul Kiagu



Mr. Suresh C. Sharma



Mr. Nanalal P. Sheth



Mr. Abraham Barno



Mr. M.N. Mehta



Senior Executives



Mr. Ashok Agrawal



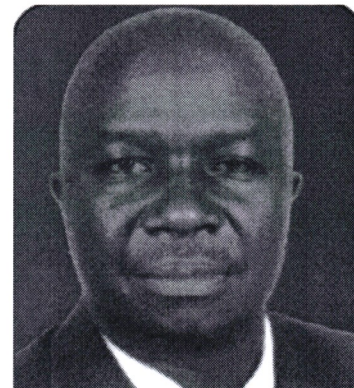
Mr. C. O. Oguya



Mr. E. O. Owiti



Mr. J. N. Njoroge



Mr. S. O. Awino



CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30TH JUNE 2017



It is my pleasure to present the Annual Report and financial statements of ACFC for the year ended 30th June 2017.

SUMMARISED OPERATING RESULTS

The Company's operations mainly depend on the quantity of molasses supplied by sugar companies. The Company received 54,880 tons (2015/2016: 81,786 tons) of molasses against a budgeted quantity of 75,000 tons. During the year the Company experienced an acute shortage of Molasses and this affected the Company operations leading to the closure of the alcohol plant for about 100 days.

The Company produced 11.124 million (2015/2016: 16.560 million) litres of alcohol against budgeted quantity of 16.20 million litres. Active Dry Yeast (ADY) production was 271 tons (2015/2016: 266 tons) against a budget of 800 tons representing a decrease of 529 tons.

Wet Yeast production was 794 tons (2015/2016: 782 tons) against a budget of 1,000 tons representing a decrease of 206 tons. During the current year the Company produced 22,763 cartons (2015/2016: 15,045 cartons) of "Patriot" bottled spirits and 149 tons of Carbon dioxide.

The Company realized a turnover of Kshs. 1,335.516 million (2016/2017 Kshs. 1,853.448 million) against the budget of Kshs. 2,176.100 million.

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



FINANCIAL HIGHLIGHTS

PRODUCTION	2016-2017			2015-2016			2014-2015	
	BUDGET	ACTUAL	% ACTUAL BUDGET	BUDGET '000'	ACTUAL '000'	% Actual Budget	BUDGET	ACTUAL
Alcohol (Lts. 000)	16,200	11,124	69%	15,550	16,560	106%	15,200	15,383
Active Dry Yeast (Tons)	800	271	34%	650	266	41%	800	509
Wet Yeast (Tons)	1,000	794	79%	1,000	782	78%	1,000	669
Carbon Dioxide	2,500	149	6%	3,750	190	5%	3750	190
Compounded Spirit (Patriot)	120,000	22,763	19%	300,000	15,045	5%	300,000	9,727
SALES:								
Alcohol (Lts 000).	16,200	12,197	75%	15,550	16,573	107%	15,200	14,803
Active Dry Yeast(Tons)	800	264	33%	650	277	43%	800	517
Wet Yeast (Tons)	1,000	794	79%	1,000	772	77%	1,000	669
Carbon Dioxide	2,500	141	6%	3,750	192	5%	3750	190
Compounded Spirit (Patriot)	120,000	21660	18%	300,000	15,045	5%	300,000	4,805
FINANCIAL INDICATORS:								
Sales Turnover (Kshs.1000)	2,176,100	1,335,516	61%	2,134,000	1,853,448	87%	2,542,200	1,766,928
Other Income (Kshs. 1000)	67,500	432,851	641%	68,000	79,884	117%	37,000	67,382
GROSS REVENUE (Kshs. 1000)	2,243,600	1,768,367	79%	2,202,000	1,933.332	88%	2,579,200	1,834,310
Operating Profit Before Interest (Kshs. 1000)	367,566	364,797	99%	356,298	538,632	151%	533,195	300,315
Interest on loans	283,631	263,368	93%	293,770	280,087	95%	332,926	287,119
Net Profit (Loss)	83,935	101,429	121%	62,598	258,545	413%	200,269	13,196
Corporate tax 30%		60,630			30,833			13,397
Net Profit (Loss) After Tax	83,935	40,799	55%	62,598	227,711		200,269	(201)

Total sales turnover for the year under review was Kshs. 1,335.516 million compared to Kshs. 1,853.448 million in the previous year. Gross revenue includes sales turnover and



other income i.e. interest on short-term deposits, sale of scrap and rent paid by employees. The gross revenue for the period was Kshs. 1,768,367 million compared to Kshs. 1,933.332 million last year. The gross sales include revaluation surplus of Kshs. 281,775,251. Operating profit before loan interest was Kshs. 364.797 million compared to Kshs. 538.632 million in 2015/2016. After charging loan interest of Kshs.263.368 million (2015/2016: 280.087 million) the Company registered an overall net profit of Kshs. 101.429 million compared to a net profit of kshs. 258.545 million in 2015/2016. After Charging Corporate tax of Kshs. 60.630 million the Company registered a profit of Kshs. 40.799 million 2015/2016 profit of Kshs. 227.711 million.

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.

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

PROSPECTS

The 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.

During the year, the Company experienced greater challenges in the procurement of molasses and this poses as great danger to the prospects of the Company

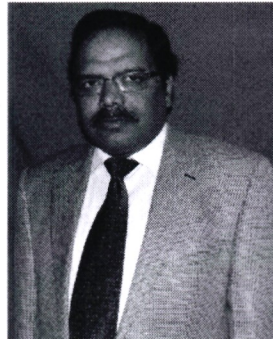
CONCLUSION

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 to improve performance of the Company in the coming years.

MR. RICHARD K. AIYABEI
CHAIRMAN



REPORT OF THE RESIDENT DIRECTOR AND CHIEF EXECUTIVE



Mr. Ashok Agrawal

During the current financial year ended June 30, 2017, the Company was faced with acute shortage in molasses supply. The shortage of molasses led to an increase of molasses prices from Kshs. 3,000 per ton to an average of Kshs. 22,000 per ton. This led to the alcohol plant being closed for about 100 days leading to lower production of Alcohol, ADY, CO₂ and bottled spirits reduced sales and lower profitability.

During the year 2016/2017 the Company registered a net profit of Kshs. 40,799,345 due to shortage of molasses arising from persistent drought. The Company has continued to put in more efforts to alleviate this situation and ensure an improved supply of molasse by rehabilitating two tanks that will increase the molasses storage capacity by 2,800 tons.

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

The Company has continued to implement its strategic plan for the year 2013/2014 to 2017/2018 through divesture into other activities. Production and Sales of CO₂ and Compounded spirits have improved during the year. The Company entered into a spirit bottling Contract with East African Breweries Limited and this has increased the revenue of the Company while utilizing the idle time at the bottling plant.

The Company has continued to support various CSR programs in the region targeting the local Community, During the year 2016/2017, the Company constructed toilets for use by school children at St. Agnes Primary School in Muhoroni town. The Company also supports the Company Football club which participates the Football Kenya Federation National Super League where it has offered many youths opportunity to show their talents.

The Company is under privatization and various options have been recommended 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.

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 Agriculture) 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 interim 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.

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.



MANAGEMENT DISCUSSION AND ANALYSIS

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

I. OPERATIONAL PERFORMANCE

During the financial year ended June 30, 2017, the Company faced challenges because of lack of raw materials (Molasses). This affected the Company's operations,

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 2016/2017, the Company procured 54,880 tons of molasses against a target of 75,000 tons. The shortfall of 20,120 tons meant the Company could not achieve its production targets.

b. Production

The Company produced 11.124 million litres of alcohol, 271 tons of ADY and 794 tons of Wet Yeast against the budget of 16.20 million litres of alcohol, 800 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 to acute shortage of molasses.

c. Sales

The Company sold 12.197 million litres of alcohol, 264 tons of ADY and 794 tons of Wet Yeast against the budget of 16.20 million litres of alcohol, 800 tons of ADY and 1,000 tons of Wet Yeast.

II. FINANCIAL PERFORMANCE

During the year 2016/2017, the Company generated a turnover of Kshs. 1,335,516,279 (2015/2016 Kshs. 1,853,448,405). The operating profit before interest on loans was Kshs 364,796,968 (2015/2016: Kshs. 538,632,319). However after charging interest on loan of Kshs. 263,367,654 (2015/2016: Kshs. 280,086,942), the Company registered a net profit of Kshs. 101,429,314 (2015/2016: Kshs. 258,545,376). After charging corporate tax of kshs. 60,629,970 (2015/2016 Kshs. 30,834,032) the company registered a profit of Kshs. 40,799,345 (2015/2016 profit of kshs 227,711,344).



The loss for the year is as a result of reduced turnover due to lower production of Alcohol as a result of the closure of the Alcohol plant for about 100 days due to shortage of Molasses.

III. PROJECTS OR INVESTMENTS

During the financial year 2016/2017, the Company continued with the improvements in the Effluent treatment plant as part of its investments.

IV. COMPLIANCE WITH STATUTORY REQUIREMENTS

During the current 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
- Emerging competition from sugar factories entering the ethanol market
- Slow Privatization process
- Negative Share Capital/Equity
- High Cost of major inputs – Fuel Oil, Imported Chemicals and Molasses

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, the Company has a loan balance of Kshs. 8,797,331,562 as at June 30, 2017 and continues to service the loan at Kshs. 150 million per annum.



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. During the year the Company continued to participate in various activities and built toilets at St. Agnes Primary School in Muhoroni town besides sponsoring the Company Football club in the Football Kenya Federation second tier National Super League.

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 region.

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 between the employees and there has not been any industrial unrest since inception of the Company.



DIRECTORS' REPORT

The Directors present their report and the statement of financial position, statement of changes in equity for the year ended 30th June 2017.

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 for both local and export markets. The company also produces bottled spirits and carbon dioxide.

Results:

During the year 2016/2017, the Company produced 11.124 million litres of alcohol, 271 tons of Active Dry Yeast, 794 tons of Wet Yeast and realized a turnover of Ksh. 1,335,516 million (2015/2016: 1,853,448 million). The operating profit before interest on loans was Kshs 364,796,968 (2015/2016: Kshs. 538,632,319). However after charging interest on loan of Kshs. 263,367,654 (2015/2016: Kshs. 280,086,942), the Company registered a net profit of Kshs. 101,429,314 (2015/2016: Kshs. 258,545,376). After charging corporate tax of kshs. 60,629,970 (2015/2016 Kshs. 30,834,032) the company registered a profit of Kshs. 40,799,345 (2015/2016 profit of kshs 227,711,344).

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 5. 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, 2017.

By order of the Board

SOLOMON AWINO OKEYO

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, 2017. 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 entity; (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 *entity*; (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, 2017, 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.

Approval of the financial statements

The Company's financial statement were approved by the Board of Directors on July 25, 2017 and signed on its behalf by:

MR. RICHARD K. AIYABEI
CHAIRMAN

JOSEPH C. MWAURA
DIRECTOR



REPUBLIC OF KENYA

Telephone: +254-20-342330
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E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON AGRO-CHEMICAL AND FOOD COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

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 22 to 57, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of comparison of budget and actual performance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. 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 matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respect, the financial position of Agro-chemical and Food Company Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Company's Act 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Other Matter section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

Capital Works in Progress

The statement of financial position reflects under property, plant and equipment a balance of Kshs.2,525,268,847, which includes capital work in progress of Kshs.80,983,897. These capital work in progress, however, includes projects worth Kshs.13,469,200 which have been terminated for being unviable as shown here below:

Report of the Auditor-General on the Financial Statements of Agro-chemical and Food Company Limited for the year ended 30 June 2017

Project	Amount (Kshs)
Construction of new molasses preparation station	12,353,522
River pump project	603,448
Construction of water clarifier	512,230
Total	13,469,200

Consequently, it has not been possible to confirm the carrying value of property, plant and equipment balance of Kshs.2,525,268,847.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Agro-chemical and Food Company Limited in accordance with ISSAI 30 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 opinion.

Emphasis of Matter

Tax Matters

I draw your attention to Note 26 to the financial statements on contingent liabilities which indicates that there is a pending demand note from Kenya Revenue Authority of Kshs.634,644,435 in respect of withholding tax assessment on interest paid to the National Treasury. The Company directors are of the opinion that this demand will be vacated and hence no liability arising.

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. Except for the matter described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Budget Performance Analysis

A comparison of budget and actual figures revealed variances as detailed below;

	Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	Variance (%)
Income	2,243,600,000	1,768,367,293	475,232,707	21%
Cost of sales	1,400,461,000	1,073,152,881	327,308,119	23%
Gross Profit	843,139,000	695,214,412		
Expenses				
Administration costs	334,675,000	222,438,176	112,236,824	34%
Depreciation	140,898,000	107,979,269	32,918,731	23%
Interest on loans	283,631,000	263,367,988	20,263,012	7%
Taxes	-	26,044,982	(26,044,982)	
Total Expenditure	759,204,000	619,830,415		
Surplus	83,935,000	75,383,997		

Analysis of the corporation's budget against the actual figures revealed that the corporation underspent in all expense categories largely due to the reduced sales activity during the year. The reduction in sales has been attributed to shortage in raw materials. The company needs to seek for new sources of its core raw materials to enhance productivity.

2. Going Concern

The Company reported a net profit of Kshs.40,799,345 which was attributed to a revaluation surplus of Kshs.281,775,563. The accumulated deficit therefore increased from Kshs.6,574,549,120 as at 30 June 2016 to Kshs.6,815,525,338 as at 30 June 2017. The current liabilities of Kshs.8,907,542,958 also exceeded current assets of Kshs.1,614,005,959 by Kshs.7,293,536,999 as at 30 June 2017. This situation indicates that the company is facing financial challenges. Therefore, the financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the Government and creditors.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the

management either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with Governance and responsible for overseeing the Company's financial reporting process

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

As part of an audit 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's 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. 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 cease to continue as a going concern.

- 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.

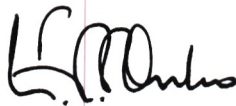
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 August 2018



**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE 2017**

		Actual 2017 Kshs	Actual 2016 Kshs
	Notes		
Revenue	5	1,335,516,279	1,853,448,405
Cost of Sales	6	1,073,152,881	1,042,343,717
Gross Profit		262,363,398	811,104,688
Other Income	7	352,891,999	26,940,864
Finance Income	8	79,959,016	52,942,752
		695,214,412	890,988,304
Costs			
Administrative costs	9	331,514,068	352,404,062
Finance Costs	10	262,271,031	280,038,866
Total Costs		593,785,099	632,442,928
Net Profit / (Loss) Before Taxation		101,429,314	258,545,377
Taxation Previous Year	11	34,584,988	17,046,879
Taxation Current Year	11	26,044,982	13,787,153
Net Profit / Loss after tax		40,799,345	227,711,345



STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30TH JUNE 2017			
		2016-2017	2015-2016
ASSETS		KSHS	KSHS
NON-CURRENT ASSETS	NOTES	(12 Months)	(12 Months)
Property, Plant and Equipment	12	2,525,268,847	2,297,843,353
Intangible Assets	13	12,908,396	18,905,754
CURRENT ASSETS			
Inventories and Work In Progress	14	264,702,121	190,887,118
Receivables	15	313,281,903	513,038,433
Short Term Deposits	16	987,557,905	881,927,012
Cash and cash equivalents	17	48,464,030	344,227,057
		1,614,005,959	1,930,079,620
TOTAL ASSETS		4,152,183,203	4,246,828,726
EQUITY			
Share Capital	18	60,000,000	60,000,000
Capital Reserves		2,000,165,592	1,718,390,029
Accumulated deficit		(6,815,525,338)	(6,574,549,120)
TOTAL EQUITY		(4,755,359,747)	(4,796,159,091)
LIABILITES			
CURRENT LIABILITIES			
Trade and Other Payables	20	54,371,203	315,594,439
Provisions	21	25,756,549	25,603,656
Loans	22	8,797,331,562	8,683,963,908
Tax Payable	23	30,083,644	17,825,814
TOTAL LIABILITIES		8,907,542,958	9,042,987,816
TOTAL EQUITY AND LIABILITIES		4,152,183,211	4,246,828,725

Accounts on pages 22 to 58 were approved by the Board of Directors on July, 25 2017

and were signed on its behalf by:



STATEMENT OF CHANGES IN EQUITY

For the year ended 30th June 2016	Share Capital	Capital Reserve **	Accumulated Deficit	Totals
	(Kshs)	(Kshs)	(Kshs)	(Kshs)
As at 1st July 2015	60,000,000	1,718,390,029	(6,802,260,465)	(5,023,870,436)
Profit for the year	-	-	227,711,345	227,711,345
As at 30th June 2016	60,000,000	1,718,390,029	(6,574,549,120)	(4,796,159,091)
As at 1st July 2016	60,000,000	1,718,390,029	(6,574,549,120)	(4,796,159,091)
Profit for the year			40,799,345	40,799,345
Revaluation Reserve / Gain		281,775,563	(281,775,563)	-
As at 30th June 2017	60,000,000	2,000,165,592	(6,815,525,338)	(4,755,359,747)



STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2017

		2016-2017 (12 Months) KSHS.	2015-2016 (12 Months) KSHS.
Cash Generated from / (Used in) Operations			
Cash from Operations	25	19,914,872	701,913,841
Interest paid			
Dividends paid			
Taxation Paid	23	(13,787,153)	(9,358,680)
Net Cash generated from / (Used in) operating activities		6,127,719	692,555,161
INVESTMENT ACTIVITIES			
Purchase of assets	12(A)	(48,946,856)	(69,586,130)
Purchase of Intangible Assets	13	-	(10,077,577)
Disposal of Asset - Sales Proceeds		2,687,000	3,972,328
Net Cash generated from / (Used in) investing activities		(46,259,856)	(75,691,379)
FINANCING ACTIVITIES			
Repayment of Loans	22(B)	(150,000,000)	(150,000,000)
Net Cash generated from / (Used in) financing activities		(150,000,000)	(150,000,000)
Net Increase/(decrease) in cash and cash equivalents(a+b+c)		(190,132,137)	466,863,781
Cash and cash equivalent at the beginning of the year		1,226,154,069	759,290,288
Cash and cash equivalent at the end of the Year	25(C)	1,036,021,933	1,226,154,069

REPORTS & FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30TH JUNE 2017

AGRO-CHEMICAL AND
FOOD COMPANY LTD



STATEMENT OF COMPARISON OF BUDGET AGAINST ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

	Budget	Actual Outcome	Performance Difference	Performance %	Remarks
Revenue					
SALES	2,176,100,000	1,335,516,279	(840,583,720.78)	61%	Unfavourble
PROFIT ON SALE OF FIXED ASSETS	2,500,000	1,372,000	(1,127,999.97)	55%	Favourable
INTEREST ON TREASURY BILLS & FIXED DEPOSITS	50,000,000	79,959,016	29,959,015.57	160%	Favourable
RENT PAID BY EMPLOYEES	7,000,000	6,857,589	(142,411.29)	98%	Unfavourble
MISCELLANEOUS INCOME	8,000,000	62,886,847	54,886,847.33	786%	Favourable
REVALUATION SURPLUS		281,775,563	281,775,562.51		Favourable
TOTAL INCOME	2,243,600,000	1,768,367,293	(475,232,707)	79%	Unfavourble
Expenses					
Cost of sales					
Materials, Energy& Packing	1,001,581,000	670,068,400	331,512,600.00	67%	Favourable
Direct Salaries, Wages& Benefits	294,522,000	255,558,631	38,963,369.23	87%	Favourable
Plant Maintenance & Other Factory Overheads	94,146,000	92,437,485	1,708,515.36	98%	Favourable
Selling and Distribution	10,212,000	30,766,774	(20,554,773.57)	301%	Unfavourble
EABL Contract Bottling Expenses		13,736,097	(13,736,097.30)		Unfavourble
Stock Adjustments- (Note 11)	0	10,585,495	(10,585,494.65)		Unfavourble
TOTAL COST OF SALES / DIRECT COSTS	1,400,461,000	1,073,152,881	327,308,119	77%	Favourable
Gross Profit	843,139,000	695,214,412	(147,924,588)		
Expenses					
ADMINISTRATION EXPENSES	334,675,000	222,438,176	112,236,824.39	66%	Favourable
Depreciation	140,898,000	107,979,269	32,918,730.77	77%	Favourable
INTEREST ON LOANS	283,631,000	263,367,654	20,263,345.95	93%	Favourable
CORPORATION TAX FOR PREVIOUS YEARS	0	34,584,988	(34,584,987.50)		
CORPORATION TAX FOR CURRENT YEAR	0	26,044,982	(26,044,981.50)		
Total Expenditure	759,204,000	654,415,068	104,788,932	86%	Favourable
Surplus	83,935,000	40,799,345	(43,135,655)		

During the current year, the Company faced acute shortage of its raw material (molasses). This led to the closure of the Alcohol plant for about 100 days contributing to low production and sales hence an unfavourable performance.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

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

2. PRINCIPAL ACCOUNTING POLICIES

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.

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 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 profit after tax of Kshs. 40,799,345 (2015/2016: profit of Kshs. 227,111,344) during the year which was added to accumulated losses totalling Kshs. 6,815,402,981 (2015/2016 6,574,549,121). In addition, the Company was in a net current liability position of Kshs. 7,293,536,999 (2015/2016: Kshs. 7,112,908,196). These and other conditions indicate doubt as to the going concern status of the company.

Management has put in place the following 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 bio gas 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.



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.

3. ADOPTION OF NEW AND REVISED STANDARDS

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard/Amendment to a standard	Effective date	Impact
Amendments to IAS 27 titled <i>Equity Method in Separate Financial Statements (issued in August 2014)</i>	1 st Jan 2016	The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. . <i>(The application of this amendment had no effect on the financial statements as the Company has no investment in subsidiaries)</i>
Amendment to IAS 19 (<i>Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014</i>)	1 st Jan 2016	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid <i>(The application of this amendment had no effect on the financial statements as the Company does not trade in Corporate Bonds)</i>
Amendments to IAS 1 titled <i>Disclosure Initiative (issued in December 2014)</i>	1 st Jan 2016	In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. <i>(The application of this amendment has been adopted by the Company)</i>
<i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</i>	1 st Jan 2017	The amendments clarify that: <ul style="list-style-type: none"> Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.



Standard/Amendment to a standard	Effective date	Impact
		<ul style="list-style-type: none"> • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. <p>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. <i>(The application of this amendment has not been adopted by the Company)</i></p>
<p><i>Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)</i></p>	<p>1st Jan 2017</p>	<p>The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary):</p> <ul style="list-style-type: none"> (i) changes from financing cash flows (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. <p><i>The application of this amendment has been adopted by the Company)</i></p>



ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective Date	Impact
FRS 15 <i>Revenue from Contracts with Customers</i> (issued in May 2014)	1 Jan 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.
IFRS 9 <i>Financial Instruments</i> (issued in July 2014)	1 Jan 2018	<p>This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:</p> <ul style="list-style-type: none"> • IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. • For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch • For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. • For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. • The derecognition provisions are carried over almost unchanged from IAS 39.
IFRS 16: <i>Leases</i>	1 Jan 2019	The new standard introduces a new lessee accounting



Standard	Effective Date	Impact
(issued in January 2016)		model and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

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.

ii) Early adoption of standards

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue Recognition

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

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

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

b) Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted with the tax legislation. Current corporate tax rate is 30.0% on adjusted profit. There is no tax liability pertaining to the business income in view of losses available for carry forward of Kshs. 5,072,186,949 (2015/2016 4,884,609,575).

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



c) **Deferred tax**

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

d) **Property plant and Equipment**

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

Property plant and equipment are re-valued at periodic intervals usually after five years. The basis of valuation is depreciated replacement cost. The property plant and equipment were revalued during the current financial year by an Independent valuer Ms. Lloyd Masika on June 30, 2017.

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

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

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

Land	1.05%
Miscellaneous Property	5.0%
Buildings	2.5%
Plant & Machinery	4.0%
Instrumentation & cooling units	4.0 %
Motor Vehicles	12.5% for re-valued items and 25.0% for additions thereafter.
Computers	33.0% for re-valued assets and 25.0% for additions thereafter.
Furniture and fixtures thereafter	15% for re-valued assets and 10% for additions thereafter

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

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



The Company work in progress relate to Capital work in progress that are not completed by the end of the financial year. These are capitalized as property plant and equipment upon completion.

e) **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.

f) **Intangible Assets**

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

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

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

h) **Inventories**

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



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

i) **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.

j) **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.

k) **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.

l) **Company as a lessor**

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

m) **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.

n) **Foreign Currencies**

Assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rate of exchange ruling at the balance sheet date. The current ruling exchange rate against the US\$ was Kshs. 103.7117 (year 2016 Kshs.101.1994) as at the balance sheet date. Transactions during the year in foreign currencies are translated at the rate ruling at the date of the transactions. Realized and



unrealized exchange rate gains or losses arising from such transactions are recorded in the income statement.

o) Budget Information

The Company original budget for FY 2016-2017 was approved by the Board of Directors and subsequently approved by the National Treasury on June, 2, 2016 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 of financial performance has been presented on Page on page 26 of these financial statements.

p) Borrowing Costs

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

q) 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 government support and Management support respectively,

r) **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.

s) **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.

t) **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.

u) **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.



v) **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.

w) **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.

x) **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.

y) **Cash and cash equivalents**

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



z) **Bank Borrowings**

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

aa) **Trade payables**

Trade payables are settled at their nominal value.

bb) **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.

cc) **Retirement Benefits Obligations**

The company operates a Defined Contribution pension scheme for non-unionisable staff.

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

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.

In accordance with the requirements of the Retirement Benefit Act 1997, the conversion approval by the Retirement Benefit Authority granted on 19th July 2004 and on 30, June 2011, the Trustee deed, Funds Management agreement, Investment policy agreement has been complied with. The accounts for 2016 have been audited and submitted to the Retirement Benefit Authority. The scheme has a



total of 123 members composed of 101 active members and 22 deferred members. During the year, 5 members joined the scheme while 4 members left the scheme. The scheme funds are managed independently of the Company's assets by ICEA Lion Life Assurance while the scheme administrator is Aon Minet Insurance Company

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

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

dd) **Contract Gratuity**

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

ee) **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.

ff) **Provision for staff leave**

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

gg) **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.

hh) **Dividends**

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

ii) **Comparative figures**



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

jj) **Subsequent events**

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

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 21. 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.

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.

5. **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.

5. REVENUE

	2016-2017	2015-2016
Spirit Sales	1,156,638,317	1,680,356,232
Carbon Dioxide Sales	7,467,880	8,526,236
Yeast Sales	171,410,082	164,565,937
	1,335,516,279	1,853,448,405

6. COST OF SALES

Materials, Energy and Packing	670,068,400	700,783,756
Direct Salaries, wages and benefits	255,558,631	240,866,746
Plant Maintenance and other Factory overheads	92,437,485	69,931,093
Selling and Distribution Expenses	30,766,774	20,924,580
EABL Contract Bottling Expenses	13,736,097	
Stock adjustments	10,585,495	9,837,542



1,073,152,881 **1,042,343,717**

7. OTHER INCOME

Profit on sale of fixed assets	1,372,000	3,972,328
Rent paid by employees	6,857,589	6,858,115
Miscellaneous Income	11,161,574	10,840,021
Contract Bottling	51,725,273	5,270,400
Revaluation Surplus	281,775,563	
	352,891,999	26,940,864

8. FINANCE INCOME

Interest on Fixed deposits	79,959,016	52,942,752
	79,959,016	52,942,752

9. ADMINSTRATIVE EXPENSES

Staff Costs	109,525,127	103,228,605
Advertising and Public relations	585,680	420,250
Audit Fees	780,000	780,000
Computer Expenses	4,501,912	2,488,543
Donations	0	445,382
Subscriptions and Newsletter	905,130	602,760
Guest House Expenses	1,876,662	2,042,801
Legal fees	2,017,791	1,435,175
Management Fees	31,206,431	30,207,376
Office equipment repairs	1,476,663	2,042,370
Motor Vehicle running Expenses	7,502,396	8,885,148
Postage, telegrams and telephone	1,006,387	828,731
Printing and stationery	1,639,799	2,008,886
Travelling and Accommodation	9,668,882	9,921,452
Marketing and Nairobi office expenses	23,762,392	29,774,869
Productivity Improvement	2,400	212,000
Consultancy and performance contracting activities	427,930	744,870
Security Hire	6,926,940	6,219,225
Insurance and Licenses	12,159,968	12,952,812
Corruption Prevention activities	10,400	0
Rent	1,892,948	1,599,379
Repairs and renewals (Housing)	600,050	2,460,166
Recruitment expenses	156,182	187,300
Directors Honorarium	720,000	720,000
Board and Committee Sitting Allowances	3,944,504	6,538,322
Write Back on Credit on Debtors balances	(229,190)	
Consultancy and professional services	467,414	2,620,000



Depreciation
Amortization

223,534,798	229,366,421
101,981,912	117,018,053
5,875,000	6,019,588
331,391,710	352,404,062

9(B). STAFF COSTS

Salary and allowances for Permanent employees
NSSF Contribution
Pension and Retirement Contributions
Leave pay and Gratuity
Staff Welfare

299,029,168	275,918,477
824,200	937,969
10,979,960	8,419,908
13,825,825	12,132,591
40,424,606	46,686,408

365,083,758	344,095,352
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10. FINANCE COST

Bank Charges
Exchange Loss / (Gains) Operations
Finance Income
Interest on loans

148,495	632,545
(399,966)	13,472
(845,152)	(694,093)
263,367,654	280,086,942

262,271,031	280,038,866
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11. TAX COMPUTATION.	2016/2017	2015/2016
Loss before tax	14,612,709	198,744,510
Add:		
Depreciation	101,981,912	117,018,053
Amortization	5,997,357	
	122,591,978	315,762,563
Less Capital allowances		
Investment deduction Building	4,669,418	2,093,071
Industrial Building Deduction	2,303,192	25,570,297
Wear and Tear	21,421,179	3,015,837
Investment deduction Plant		304,602,624
Adjusted profit(loss)	150,985,767	(19,519,266)
Tax losses brought down	4,884,609,575	4,865,090,309
Total Losses Carried Forward	(4,733,623,808)	(4,884,609,575)
There is no tax liability from the business income as a result of carry forward losses		
Taxable Income (Rental and Interest)	86,816,605	45,957,177
Current Tax at 30%	26,044,982	13,787,153

12. (A) 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 2016	19,772,100	13,030,478	348,616,429	2,329,112,230	52,384,604	77,307,937	17,545,106	17,228,353	2,874,997,237
Accumulated Depreciation	(1,259,804)	(3,127,330)	(48,228,644)	(464,573,500)	0	(39,037,641)	(13,178,846)	(7,748,120)	(577,153,885)
Carrying Amount as at 1st July 2017	18,512,296	9,903,148	300,387,786	1,864,538,730	52,384,604	38,270,296	4,366,260	9,480,233	2,297,843,353
Revaluation Surplus/Loss	28,084,556		116,057,214	124,876,270		12,165,004	(59,760)	652,267	281,775,551
On Revaluation on July 1, 2016	56,500,000		416,445,000	1,989,415,000	52,384,604	50,435,300	4,306,500	10,132,500	2,579,618,904
Additions				768,246	48,178,620				48,946,866
Transfer from Work In progress			2,303,192	10,059,164	(19,579,327)	5,439,352	1,406,930	370,689	0
On Disposal						(1,315,000)			(1,315,000)
As at 30th June 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
DEPRECIATION									
As at 1st July 2016	1,259,804	3,127,330	48,228,644	464,573,500		39,037,641	13,178,846	7,748,120	577,153,885
On Revaluation	(1,259,804)	(3,127,330)	(48,228,644)	(464,573,500)		(39,037,641)	(13,178,846)	(7,748,120)	(577,153,885)
Charge for the Year July 2016- June 2017	1,488,575		10,468,705	80,681,697		7,119,780	1,142,686	1,080,469	101,981,912
As at 30th June 2017	1,488,575	0	10,468,705	80,681,697		7,119,780	1,142,686	1,080,469	101,981,912
NET BOOK VALUE									
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	2,525,268,857
As at 30th June 2016	18,512,296	9,903,148	300,387,786	1,864,538,730	52,384,604	38,270,296	4,366,260	9,480,233	2,297,843,353



12 B) SCHEDULE OF PROPERTY, PLANT & MACHINERY AND EQUIPMENT FOR THE YEAR ENDED 30TH JUNE 2016										
	Leasehold Land Kshs.	Miscellaneous property	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.	
COST / VALUATION COMPRISING										
As at 1st July 2015	19,772,100	13,030,478	338,962,553	2,021,962,774	311,204,765	71,015,811	16,833,187	17,044,573	2,809,826,241	
Additions				19,168,113	38,815,058	9,537,260	1,881,919	183,780	69,586,130	
Transfer from Work in Progress			9,653,876	287,981,343	(297,635,219)				0	
Disposal						(3,245,134)	(1,170,000)		(4,415,134)	
As at 30th June 2016	19,772,100	13,030,478	348,616,429	2,329,112,230	52,384,604	77,307,937	17,545,106	17,228,353	2,874,997,237	
DEPRECIATION										
As at 1st July 2015	1,049,836	2,606,096	39,513,210	371,215,832		31,531,642	12,633,538	6,000,812	464,550,965	
Accumulated Depreciation Restated						(3,245,134)	(1,170,000)		(4,415,134)	
Charge for the Period July 2015- June 2016	209,968	521,234	8,715,434	93,357,668		10,751,133	1,715,308	1,747,308	117,018,053	
As at 30th June 2016	1,259,804	3,127,330	48,228,644	464,573,500		39,037,641	13,178,846	7,748,120	577,153,885	
NET BOOK VALUE										
As at 30th June 2016	18,512,296	9,903,148	300,387,786	1,864,538,730	52,384,604	38,270,296	4,366,260	9,480,233	2,297,843,353	
As at 30th June 2015	18,722,264	10,424,382	299,449,344	1,650,746,942	311,204,765	39,484,169	4,199,649	11,043,761	2,345,275,276	



13. INTANGIBLE ASSETS

	2016/2017	2015/2016
COST		
As at July, 1, 2016	30,097,992	20,020,415
Additions		
Pledge Payroll Software		6,093,795
SAP ERP Phase II		3,983,782
On Revaluation		
Addition as at June 30,2017	-	10,077,577
As at June 30, 2017	30,097,992	30,097,992
Amortization		
As at July, 1, 2016	11,192,238	5,172,651
Charge For the Year	5,997,357	6,019,588
On Revaluation		
As at June 30, 2017	17,189,595	11,192,238
Net Bok Value	12,908,396	18,905,754

**REPORTS & FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30TH JUNE 2017**

**AGRO-CHEMICAL AND
FOOD COMPANY LTD**



14. INVENTORIES AND WORK IN PROGRESS		
Raw materials and spares	233,818,257	178,004,547
Finished Goods	30,883,864	12,882,570
	264,702,121	190,887,117
15. TRADE AND OTHER RECEIVABLES		
Trade Debtors	163,510,448	386,627,865
Pre-payments	21,774,498	19,501,996
Creditors with debit Balances	63,939,441	61,499,706
Other debtors	129,221,948	110,802,487
Total	378,446,335	578,432,055
Provision for Bad and Doubtful debts	(65,164,432)	(65,393,622)
	313,281,903	513,038,433
15.(a) TRADE AND OTHER RECEIVABLES		
Trade receivables (note 15 (b))	163,510,448	386,627,865
Deposits and prepayments	21,774,498	19,501,996
Creditors with debit Balances	63,939,441	61,499,706
Staff receivables (note 15 (c))	21,894,291	14,007,656
Other receivables	107,327,658	96,794,832
Gross trade and other receivables	378,446,335	578,432,055
Other: Provision for bad and doubtful receivable	(65,164,432)	(65,393,622)
Net trade and other receivables	313,281,903	513,038,433
15.(b) TRADE RECEIVABLES		
Gross trade receivables	163,510,448	386,627,865
Provision for doubtful receivables	(65,164,432)	(65,393,622)
	98,346,016	321,234,243
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	52,396,666	302,847,438
Between 30 and 60 days	(13,607,398)	(537,818)
Between 61 and 90 days	(1,484,436)	(21,396,352)
Between 91 and 120 days	(20,798,450)	(38,446,424)
Over 120 days	147,004,067	144,161,022
	163,510,448	386,627,865
15.(c) STAFF RECEIVABLES		
Gross staff loans and advances	21,894,291	14,007,656
Provision for impairment loss		
	21,894,291	14,007,656
Less: Amounts due within one year	21,894,291	14,007,656
Amounts due after one year	(0)	(0)
16. SHORT TERM DEPOSITS		
N.b.k Fixed Deposit	831,986,718	626,927,012
K.C.B Fixed deposit	155,000,000	255,000,000
NBK Call deposit	571,186	
	987,557,905	881,927,012
17. CASH AND CASH EQUIVALENTS		
Cash at Bank	47,694,617	343,932,817
Cash in Hand	769,413	294,240



17. (b) Detailed analysis of cash and Cash Equivalents			
Financial Institution	Account Number	2016-2017	2015-2016
a) Current Account			
National Bank Current Account - Kisumu	01020000782601	8,403,748	153,355,158
Barclay Current Account - Kisumu	1009560	2,036,415	105,226,159
National Bank Current Account - Harambee Avenue	1020000782600	11,893,392	10,016,502
Kenya Commercial Bank School Account - Muhoroni	1104055325	6,548,938	4,549,494
Kenya Commercial Bank -Muhoroni	110-4043-084	11,485,256	63,607,704
Sub Total		40,367,748	336,755,017
b) On Call Deposits			
National Bank of Kenya		571,186	
Sub Total		571,186	0
c) Fixed Deposits Accounts			
National Bank of Kenya		831,986,718	626,927,012
KCB		155,000,000	255,000,000
Sub Total		986,986,718	881,927,012
d) Foreign Currency Account (US\$)			
Nbk US Dollar Account - Harambee Avenue	0200007826500	3,322,249	3,238,657
Sub Total		3,322,249	3,238,657
e) Savings Account			
National Bank of Kenya Savings Account Kisumu	1241000782600	4,004,620	3,939,143
Sub Total		4,004,620	3,939,143
f) Others- Cash in Hand			
Petty cash - Nairobi Office		37,626	22,445
Petty Cash Muhoroni		731,782	142,430
Petty Cash School		6	129,365
Sub Total		769,413	294,240

18.SHARE CAPITAL

Authorised 3,750,000 Ordinary shares

Of Kshs.20/= 75,000,000 75,000,000

Issued and fully paid 3,000,000,000

Ordinary shares of Kshs.20/= 60,000,000 60,000,000



19. REVALUATION RESERVE

Revaluation reserve relates 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 retained earnings. Revaluation reserve is not distributable.

20. TRADE AND OTHER PAYABLES

Trade Payables	29,051,372	61,964,218
Debtors with credit Balances	13,225,460	31,422,721
Other Payables	12,094,372	222,207,500
	54,371,203	315,594,439

21. PROVISION

Balance as at the beginning for staff Leave	20,024,066	20,350,672
Balance as at the beginning for Service Gratuity	5,579,590	3,290,548
Povision for staff Leave at the beginning of the year	19,792,306	20,024,066
Povision for Service Gratuity at the beginning of the year	1,591,690	2,289,042
Staff Leave paid during the year	(20,024,066)	(20,350,672)
Service Gratuity paid during the year	(1,207,037)	
	25,756,550	25,603,656

22. LOANS

Interest Rate

GOK ON-LENT	7%	2,941,884,000	2,941,884,000
Loans interest on GOK On Lent Loan		5,339,519,478	5,133,587,589
Interest on GOK paid Loan	13.61%	515,928,084	608,492,319
		8,797,331,562	8,683,963,908

22.(B) LOANS MOVEMENT

Opening balance	8,683,963,908	8,553,876,965
Interest For the period	263,367,654	280,086,942
Loan Repaid	(150,000,000)	(150,000,000)
Loan Balance	8,797,331,562	8,683,963,908

23. TAX PAYABLE

Tax Brought Forward	17,825,814	13,397,341
Income tax charge	26,044,982	13,787,153
Tax Paid	(13,787,153)	(9,358,680)
	30,083,643	17,825,814

24. CAPITAL COMMITMENTS

Authorised and Contracted	86,049,000	132,319,000
Authorised but not Contracted	66,552,000	1,857,000
TOTAL	152,601,000	134,176,000



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

25. NOTES TO THE STATEMENT OF CASHFLOWS

		2016-2017 (12 Months) KSHS.	2015-2016 (12 Months) KSHS.
a) Reconciliation of operating profit/(loss) to cash generated from/ (used in) operations			
Operating Profit/(Loss)		101,429,314	258,545,377
Adjustment for items not involving movement of funds:			
Interest on Loans	22 (B)	263,367,655	280,086,943
Depreciation	12(A)	101,981,912	117,018,053
Amortization	13	5,997,357	6,019,588
Profit on Disposal of property Plant and Equipment	7	(1,372,000)	(3,972,328)
Revaluation Surplus		(281,775,563)	
Tax Charged-Previous Year		(34,584,988)	(30,834,032)
Tax Charged-Current Year	11	(26,044,982)	
Net Operating Profit before changes in working capital			
changes in working capital:		128,998,706	626,863,601
Increase/ (Decrease) in working Capital			
Increase in inventories		(73,815,004)	40,086,452
Decrease in receivables		199,756,530	(158,446,511)
Decrease in payables		(261,223,236)	177,732,335
Staff Leave payable current year		19,792,306	22,241,482
Staff Leave paid		(20,024,066)	(20,350,672)
Gratuity Leave paid		(1,207,037)	
Gratuity payable current year		1,591,690	
Taxation Current year		26,044,982	13,787,153
Net Cash generated / (used in) operations		19,914,872	701,913,841

26. 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.
- ii) There is a pending tax demand from Kenya Revenue Authority of Kshs. 7,310,579 arising from a claim on spirits designated for export market and diverted to the local market. The matter is currently in court. The directors are of the opinion that the tax demand will be vacated and hence no liability arising.



27. 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 has an outstanding loan of Kshs. 8,797,331,562 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 international Investment Corporation. 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

Transactions with related parties

i) Government of Kenya

	2016-2017 Kshs.	2015-2016 Kshs.
Loan outstanding	8,797,331,562	8,683,963,908

ii) The Mehta Group

Management Fee Paid	31,206,431	30,207,376
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	2016-2017 Kshs.	2015-2016 Kshs.
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Key management remuneration

Directors	3,691,200	4,065,600
Key Management Staff Compensation	<u>28,656,180</u>	<u>26,984,856</u>



Total	<u>32,347,380</u>	<u>31,050,456</u>
Due From related parties		
Due from Government of Kenya	Nil	Nil
Due from The Mehta group	Nil	Nil
Total Due	Nil	Nil
	2016-2017	2015-2016
	Kshs.	Kshs.
Due to related parties		
Due to Government of Kenya	8,797,331,562	8,683,963,908
Total	<u>8,797,331,562</u>	<u>8,683,963,908</u>
Due to The Mehta group	Nil	Nil
Total Due	Nil	Nil

28. GOK LOAN

The Company has an outstanding loan of Kshs. 8,797,331,562 with the Government of Kenya and the loan has been classified as current liabilities. The above loans 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.

29. 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 committee oversees how the management monitors compliance with the risk management policies and procedures. Risk management is carried out by the management under the supervision of the Board of Directors. The Company has an internal audit department. The internal audit undertakes



both regular and ad hoc reviews of risks management controls and procedures, the results of which are reported to the Audit committee.

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

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

a. **Credit risk**

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

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2017 and 30 June 2016 is made up as follows:

	Fully Performing Sh	Past due Sh	Impaired Sh	Total Sh
At 30 June 2017				
Cash and cash equivalents	1,036,021,935	-	-	1,036,021,935
Trade receivables	98,246,106	-	65,164,432	163,410,448
	-----	-----	-----	-----
	1,134,267,951	-	65,164,432	1,199,432,383
	=====	=====	=====	=====
At 30 June 2016				
Cash and cash equivalents	1,226,154,069	-	-	1,226,154,069
Trade receivables	321,234,243	-	65,393,622	386,627,865
	-----	-----	-----	-----
	1,547,388,312	-	65,393,622	1,612,781,934
	=====	=====	=====	=====

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, 2017 an increase/decrease of 5 Percentage points would have resulted in an increase/decrease in pre-tax profits by Kshs. 166,328 (2015/2016: 161,915). 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.

As at 30th June 2017 an increase /decrease of 5 percentage points would have resulted in an increase/decrease in pre-tax profits of kshs. 2,981,324.37 (2015/2016 Kshs. 3,864,471).

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

c. **Liquidity Risk**

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

Financial Liabilities	2016-2017 Within 1 year	Over 1 Year	2015-2016 Within 1 year	Over 1 Year
	Sh	Sh	Sh	Sh
Borrowings Related Parties	-	-	-	-
Borrowings - Bank	-	-	-	-
Payables	8,899,409,308		8,683,963,908	
Total	8,899,409,308		8,683,963,908	
Financial Assets				



Cash and Cash Equivalents	1,036,021,935		1,226,154,069	-
Trade Receivables	98,246,106		321,234,243	-
Total	1,134,268,041		1,547,388,312	-
Net Liquidity Gap	(7,765,141,268)		(7,136,575,596)	-

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.

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 behaviour.

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.

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 20 as well as retained earnings and issued capital as presented on note 18.

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.

30. 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:

	2017	2016
Payable within one year	1,541,940	1,599,379
Payable after one year but not later than 5 years	<u>6,978,049</u>	<u>1,599,379</u>
	<u>8,519,989</u>	<u>1,599,379</u>

The current lease will expire on June 30, 2022

31. INCORPORATION

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

32. EVENTS AFTER THE REPORTING PERIOD

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

33. 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. 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 person to resolve the issue(Name and Designation)	Point to the issue(Name)	Status (Resolved / Not Resolved)	Time Frame (Put date when you expect the issue to be resolved)
1	<p>Going Concern</p> <p>During the year, that the Company made a profit of Kshs. 227,711,344 which reduced the accumulated deficit from Kshs. 6,802,260,465 to Kshs. 6,574,549,121 in the year under review. The</p> <p>current liabilities of Kshs. 9,042,987,816 exceeded current assets of Kshs. 1,930,079,620 by Kshs. 7,112,908,196 as at June 30, 2016. The Company is therefore technically insolvent and the financial statements have been prepared on a going concern basis on the assumption that the Company will receive support from the Government, creditors and bankers.</p>					