

REPUBLIC OF KENYA

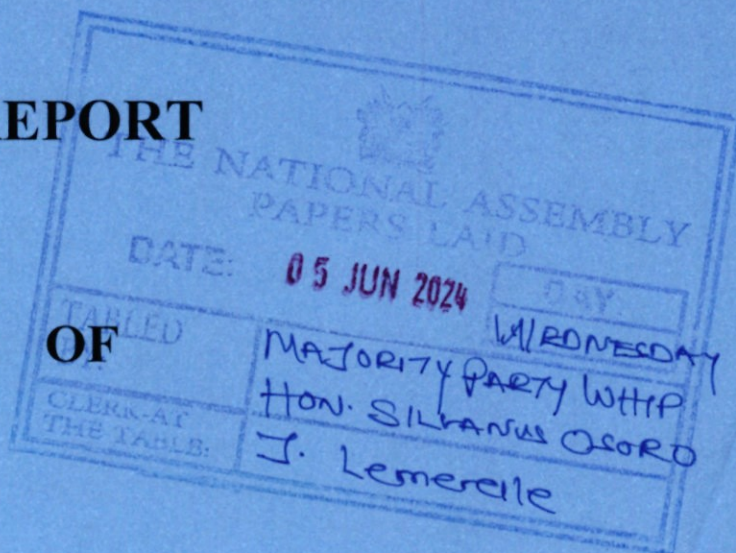


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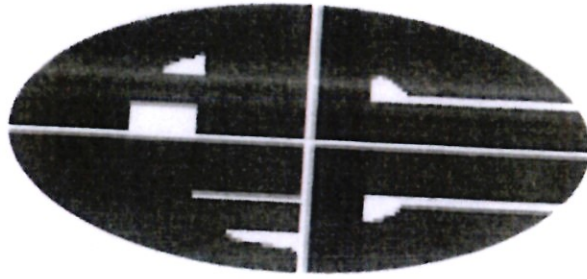
THE AUDITOR-GENERAL

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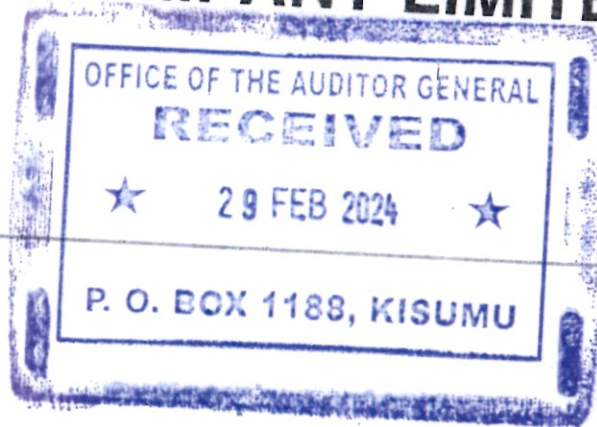
**AGROCHEMICAL AND FOOD
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2023**





**AGRO-CHEMICAL AND FOOD
COMPANY LIMITED**



**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 30TH JUNE 2023

Prepared in accordance with the International Financial Reporting Standards (IFRS)



TABLE OF CONTENTS

1.	Acronyms and Glossary of Terms.....	ii
2.	Key Company Information.....	iii-vii
3.	Board of Directors.....	viii - xii
4.	Key Management team.....	xiii
5.	Chairman’s Statement.....	xiv- xvii
6.	Report of the Resident Director and Chief Executive.....	xvii xviii
7.	Statement of performance against pre-determined objectives for the financial year 2022/2023.....	xix - xxi
8.	Corporate Governance statement.....	xxii - xxvi
9.	Management Discussion and Analysis.....	xxvii xxx
10.	Environmental and Sustainability reporting.....	xxxi - xxxvi
11.	Report of the Directors.....	xxxvii xxxviii
12.	Statement of Directors’ Responsibilities.....	xl
13.	Report of the Independent Auditors	xli
14.	Statement of Profit and Loss and Other Comprehensive Income for the year ended 30 June 2023	1
15.	Statement of Financial Position for the year ended 30 June 2023.....	2
16.	Statement of Changes in Equity for the year ended 30 June 2023.....	3
17.	Statement of Cash Flows for the year ended 30 June 2023.....	4
18.	Statement of Comparison of Budget against actual for the year ended 30 June 2023.....	5
19.	Notes to the Financial Statements.....	6-44
20.	Appendices	45-46



I. ACRONYMS AND GLOSARY OF TERMS

IFRS	International Financial reporting Standards
ACFC	Agro Chemical and Food Company Limited
ADY	Active Dry Yeast
ICPAK	Institute of Certified Public Accountants of Kenya
LSK	Law Society of Kenya
CSTR	Continuous Stirred Tank Reactor
RD&CE	Resident Director & Chief Executive
ADC	Agricultural Development Corporation
KDC	Kenya Development Corporation
TML	The Mehta International Limited



II. COMPANY INFORMATION

a) BACKGROUND INFORMATION

Agro-Chemical and Food Company was established in 1978 under the Companies Act Cap 486 to produce power alcohol from sugar cane molasses. It was a unique joint venture between the private sector and the Government of Kenya. 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 program meant to curb post-independence migration to urban areas. The technology selected was from M/s. Vogelbusch of Austria which was one of the "best technologies" in the world in the field of Alcohol and Active Dry Yeast.

The program 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 spirits 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 to date.

At the cabinet level, ACFC is represented by the Cabinet Secretary, Ministry of Agriculture and livestock who is responsible for general policy and strategic direction of the company. ACFC is domiciled in Kenya, and factory located in Muhoroni.

b) PRINCIPAL ACTIVITIES

The Company produces Extra Neutral Spirit, Kenya Methylated Spirit, Industrial Methylated Spirit, Active Dry Yeast, fresh Wet yeast, Carbon dioxide, Surgical Spirits and Hand Sanitizers from sugar cane molasses for both local and export markets. The company also produces bottled spirits Patriot Gin and Vodka.



COMPANY INFORMATION (Continued)

MISSION STATEMENT

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

VISION STATEMENT

Production of world class quality products through cost effective, innovative and environmentally friendly technologies.

COMPANY OBJECTIVES

Agro Chemical and Food Company has 5 strategic pillars and objectives as listed below:

Pillar 1: Raw Materials

Pillar 2: Company Revenues and profits

Pillar 3: Factory operations

Pillar 4: Environment, Occupational Safety and Quality Management

Pillar 5: Institutional Capacity



c) The Board of Directors

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

ORGANIZATION	NAME
Agricultural Development Corporation	Mr. Mohamed Bulle-Chairman (Appointed on April 5, 2019)
Agricultural Development Corporation	Mr. Rodgers Karumpu (Appointed on January 3, 2022)
Kenya Development Corporation	Ms. Mbatha Mbithi (Appointed on January 1, 2023) Replaced Mrs. Faith D. Nene
Kenya Development Corporation	Mr. John Karia (Appointed on January 1, 2023) Replaced Mr. Erastus Njoroge
The Mehta International Limited	Mr. Suresh Sharma (Appointed on July 26, 1994). Anil Shah: Alternate to S.C. Sharma Appointed on 11 th September 2021.
The Mehta International Limited	Mr. John Kiruthu (Alternate to Mr. M.N. Mehta) (Appointed on September 11, 2021).
Ministry of Agriculture, Livestock Fisheries & Irrigation (State Department for Crop Development)	P.S. (Alternate: Mr. James Wanjohi) (Appointed on February 3, 2020).



The National Treasury

C.S. (Alternate: CPA. Margaret
Wamuyu Appointed on
September 9, 2019)

Resident Director and Chief Executive

Mr. Ashok Agrawal (Re-
appointed on 25th May 2023)
Replaced
Mr. Timothy Jomo Ogwang.

Company Secretary:

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

d) Registered Office

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

e) Principal place of Business

Muhoroni Factory
Muhoroni Town
P.O. Box 18-40107
Muhoroni, Kenya
Telephone +254 020 2334020/1
Email. admin@acfc.co.ke
Website: www.acfc.co.ke

f) Corporate Bankers:

National Bank of Kenya Limited
P.O. BOX 1152-40100
KISUMU

ABSA Bank Kenya Limited
P.O. Box 831, KISUMU

KCB Bank
P.O. Box 113
MUHORONI



COMPANY INFORMATION (Continued)

g) Independent Auditors:

Auditor General
The Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
NAIROBI, Kenya

h) Principal Legal Advisers:

1. Staussi Asunah & Oluoch Advocates
P.O. Box 3140-40100
Kisumu, Kenya
2. Theuri Wanjohi & Co. Advocates
P.O. Box 6502-00100
Nairobi, Kenya
3. The Attorney General
State Law Office and Department of Justice
Harambee Avenue
P. O. Box 40112
City Square 00200
NAIROBI, Kenya



III. THE BOARD OF DIRECTORS



Mr. Mohamed Bulle -Chairman

He was born in the year 1958 and was appointed to the Board on 05.04.2019 He is currently the Managing Director of Agricultural Development Corporation and is a holder of BSC (Agricultural Education and Extension) and M.Sc. Environmental Science (Specialized in sustainable development and climate change) He has four years working experience with ACFC.



Mr. Rodgers Karumpu



He was born on 13/07/1974 and was appointed to the Board on 03.01.2022. He is a holder of LLB and an advocate at the High Court in Kenya. He has one year working experience with ACFC and he is currently the chair of the Audit and Risk committee.





MS. MBATHA MBITHI

She was born on 16/07/1966. She was appointed to the Board on 1st January 2023 and is a holder of Master in Business Administration in Strategic Management from Moi University and a Bachelor of Science Degree in International Business Administration from the United States International University. She is currently the Deputy Director Partnership and Resource Mobilization at KDC.



BOARD OF DIRECTORS	
 <p data-bbox="175 1086 542 1120">Mr. John Saitoti Karia</p>	<p data-bbox="1109 353 1476 1086">He was born on 25th May 1984 and was appointed to the Board on 1st January 2023 .He is an Advocate of the High Court of Kenya and a Certified Secretary. He holds a Masters degree in Law (LLM) from the University of Exeter, (UK), a Post-graduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws degree (LLB) from University of Nairobi. He is a Member of the Institute of Certified Secretaries of Kenya, the Law Society of Kenya and the Chartered Institute of Arbitrators (Kenya Branch). He is currently the Deputy Director, Legal Services at Kenya Development Corporation.</p>
 <p data-bbox="279 1624 997 1702">The National Treasury C.S.(Alternate: CPA. Ms. Margaret Wamuyu)</p>	<p data-bbox="1021 1131 1476 1780">She was born in the year 1985 and was appointed to the Board on 30.09.2019. She is currently working at The National Treasury and is a holder of Master of Business Administration degree from the University of Nairobi and Bachelor of Commerce degree (First Class Honors) from KCA University. She is a Certified Public Accountant and a Member of Institute of Certified Public Accountants of Kenya (ICPAK). She has four years' experience working with ACFC.</p>



 <p>Mr. Anil Shah Alternate to Mr. Suresh Sharma</p>	<p>He was born on 9th August 1963 and was appointed to the Board on 11th September 2021. He is a Specialist in Sugar Industry and has two years working experience with ACFC. He is a holder of Bachelors in Engineering (Mechanical), ANSI (Sugar Eng. Fellowship of Sugar Technical Association).</p>
 <p>Mr. John Kiruthu</p>	<p>He was born on 12th March 1963 and was appointed to the Board on 11th September 2021 He is a practicing accountant and has two years working experience with ACFC. He is a Certified Public Accountant and Investment Banker with over 30 years post qualification experience</p>



BOARD OF DIRECTORS (Continued)



Mr. M.N. Mehta

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



Mr James Wanjohi)
**Alternate to the PS Ministry of Agriculture
and Livestock Development.**

He was born in the year 1968 and was appointed to the Board on 03.03.2020. He has three years' working experience with ACFC. He is currently working at The Ministry of Agriculture and Livestock (State Department for Crop Development). He is a holder of MSc. Agric Extension, Bsc Agric.



Mr. Ashok Agrawal
Resident Director and Chief Executive

He was born on 26th January 1959 and is a holder of B. Tech. (Chem. Engineering). (Re-appointed on 25th May 2023)

He is currently the Resident Director and Chief Executive






Ms. Sharon Cheruiyot

She was born on 1989. She is currently the Company Secretary and Manager Legal Services. She is a holder of Bachelors in Law (LLB), an advocate of the High court, a Certified Secretary and a member of ICS and LSK.



IV. MANAGEMENT TEAM

 <p>Mr. Ashok Agrawal Resident Director and Chief Executive</p>	<p>He was born on 26th January 1959 and is a holder of B. Tech. (Chem. Engineering).</p> <p>He is currently the Resident Director and Chief Executive</p>
 <p>Mr. Edwin O. Owiti</p>	<p>He is currently the General Manager Finance and ICT. He was born in 1976 and is a holder of B. ED, M A (ECON), CPA(K) and member of ICPAK</p>
 <p>Ms. Sharon Cheruiyot</p>	<p>She is currently the Company Secretary and Manager Legal Services. She is a holder of Bachelors in Law (LLB), an advocate of the High court, a Certified Secretary and a member of ICS and LSK.</p>



V. CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30TH JUNE 2023



It is my pleasure to present the Annual Report and financial statements of ACFC for the year ending 30th June 2022.

SUMMARISED OPERATING RESULTS

The Company's operations depend on the quantity of molasses supplied by sugar companies. The Company received 61,606 tons (2021/2022: 69,522 tons) of molasses against a budgeted quantity of 65,000 tons.

The Company produced 12.005 million (2021/2022: 14.955 million) litres of alcohol against the budgeted quantity of 15.00 million litres. Active Dry Yeast (ADY) production was 15 tons (2021/2022: 30 tons) against a budget of 250 tons representing a decrease 235 tons.

The budgeted quantity of ADY was not achieved due to diminishing demand for ADY as a result of stiff competition from imported yeast. Wet Yeast production was 741 tons (2021/2022: 724 tons) against a budget of 800 tons representing a decrease of 59 tons. The target for wet yeast production was not met due to competition from imported instant yeast. The Company realized a turnover of Kshs. 1,942.305 million (2021/2022 Kshs.1,683.769 million) against the budget of Kshs. 2,031.955 million.

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



CHAIRMAN'S REPORT (Continued)

FINANCIAL HIGHLIGHTS

	2022-2023				2021-2022			2020-2021	
PRODUCTION	UNIT	BUDGET	ACTUAL	% ACTUAL / BUDGET	BUDGET	ACTUAL	% ACTUAL / BUDGET	BUDGET	ACTUAL
Alcohol	Lts '000"	15,000	12,005	80%	14,200	14,955	105%	14,000	13,874
Active Dry Yeast	Tons	250	15	6%	250	30	12%	280	39
Wet Yeast	Tons	800	741	93%	1,000	723	72%	1,100	603
Carbon Dioxide	Tons	86		0%	500	44	9%	200	4
Compounded Spirit (Patriot) (artons)	Cartons	48,000	22,710	47%	468,000	16,147	3%	88,000	
SALES									
Alcohol	Lts '000"	15,000	14,955	100%	14,200	13,495	95%	14,000	13,216
Active Dry Yeast	Tons	250	13	5%	250	39	16%	280	65
Wet Yeast	Tons	800	741	93%	1,000	603	60%	1,100	740
Carbon Dioxide	Tons	86		0%	500	65	13%	200	42
Compounded Spirit (Patriot) (artons)	Cartons	48,000	19,611	41%	468,000	2,675	1%	88,000	9,950
FINANCIAL INDICATORS									
Sales Turnover	Kshs. 000	2,037,624	1,920,742	94%	2,031,955	1,683,769	83%	1,896,493	1,583,821
Other Income	Kshs. 000	74,100	36,414	49%	58,700	71,363	122%	65,500	70,516
GROSS REVENUE	Kshs. 000	2,111,724	1,957,156	93%	2,090,655	1,755,132	84%	1,961,993	1,654,337
Operating profit / (Loss) before loan interest	Kshs. 000	13,273	(553,108)		181,854	(7,189)		99,692	-20,415
Interest on Loan	Kshs. 000	316,699	327,350	103%	276,291	306,713	111%	309,517	284,430
Net Profit / (Loss) before tax	Kshs. 000	(303,425)	(880,458)		(94,437)	(313,902)		-209,825	-304,845
Corporate tax 30%	Kshs. 000	-	7,495			7,172			10,960
Net Profit / (Loss) after tax	Kshs. 000	(303,425)	(887,954)	293%	(94,437)	(321,074)		-209,825	(315,805)

Total sales turnover for the year was Kshs. 1,920.742 million compared to Kshs. 1,683.769 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. 1,957.156 million compared to Kshs. 1,755.132 million last year. The Company registered an operating loss before loan interest of Kshs. 553.108 million compared to a loss of Kshs. 7.189 million in 2021/2022. After charging loan interest of Kshs. 327.350 million (2021/2022: Kshs. 306.713 million) the Company registered an overall net loss of Kshs. 880.458 million compared to a net loss of kshs313.902 million in 2021/2022. After Charging Corporate tax of Kshs. 7.495 (2021/2022: Kshs.7.172 million the Company registered a loss of Kshs.887.954 million 2021/2022 loss of Kshs. 321.074 million.

The loss realized in the year 2022/2023 is mainly due to the high cost of Molasses as well as increase in consumption of fuel oil due to delay in commissioning of the Bio reactor.

CHALLENGES

During the year, the Company could not achieve its budgeted production, sales and profitability targets. This was mainly due to:



CHAIRMAN'S REPORT (Continued)

- a) Acute shortage of molasses as a result of lack of sugar cane for the sugar factories leading to the closure of the alcohol plant for 42 days.
- b) Diminishing demand for ADY as a result of stringent alcoholic crackdowns and stiff competition from imported yeast.
- c) Low uptake of Carbon dioxide as a result of plant breakdowns.
- d) Cheap brands of Compounded spirits in the market.
- e) Increased use of imported instant yeast for the bakeries.
- f) Increased cost of production as a result of high consumption of fuel oil.
- g) Low pricing of ENA as a result of competition from other distillers

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 and Livestock (State Department of Crops Development and Agricultural Research), The National Treasury, Agricultural Food Authority (AFA) and Sugar companies for their continued guidance and support.

PROSPECTS

The Company prospects depend on the quantity and pricing of molasses that the Company can obtain from sugar companies. Our continued appeal to the sugar companies for adequate and affordable molasses remains on course. The Privatization commission is currently conducting a due diligence report on the factory that will lead to the Privatization of ACFC. When the Company is finally privatized, and strategic alliances entered with sugar companies, this dream will surely be realized. The Government initiative to revamp the sugar sector will also enhance the Company's operations and profitability.

CONCLUSION

My sincere appreciation goes to all my colleagues on the Board for their tireless devotion and valued guidance. I look forward to similar enthusiasm and co-operation in the future. I also wish to extend my sincere appreciation to the management and the staff of ACFC for their efforts and feel confident that they will work even harder and smarter towards turning the Company back to profitability.


MOHAMED M. BULLE, EBS
CHAIRMAN



VI. REPORT OF THE RESIDENT DIRECTOR AND CHIEF EXECUTIVE



Mr. Ashok Agrawal

During the year 2022/2023 the Company registered a net loss of Kshs. 887.954 million Compared to loss of Kshs. 321.074 million in 2021/2022 due to low availability of molasses leading to an increase in molasses price from the budgeted price of Kshs. 6,000 per ton to above Kshs. 35,000 per ton and high fuel oil consumption as a result of the delay in completion of the CSTR project. During the year, the alcohol plant was also closed for 42 days due to lack of molasses,

ACFC has strategic pillars and objectives within its Strategic plan 2018/2019 to 2022/2023. These strategic pillars are as follows:

1. Enhance stability of raw materials supply.
2. Strengthen Company revenue and profit streams.
3. Improve Factory production efficiencies.
4. Improve the Company Environmental, Occupational Safety and Quality management systems.
5. Strengthen the ACFC institutional Capacity.

The Company develops its annual work plans based on the above pillars. Assessment of the Boards performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets for the financial year 2022/2023 period based on its 5 strategic pillars.

The Company has embarked on a review of its strategic plan for the next five years (2023/2024 to 2026/2027). We are hopeful that the plan will reposition ACFC for greater milestones.

The Company intends to do aggressive marketing, introduce new products, enhance production capacities, and embrace cost rationalization. The management believes that these strategies will enable the Company to bounce back to recovery path leading to an increase in value additions.



ACFC is under privatization and consultancy is currently underway by the Privatization Commission. Privatization of the Company is key in bringing back the Company to profitability and a healthier balance sheet will therefore be realized. The Company intends to complete the continuous stirred tank reactor project (CSTR) which will lead to increased savings on energy usage.

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

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

ASHOK AGRAWAL
RESIDENT DIRECTOR
AND CHIEF EXECUTIVE



**VII. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR
2022/2023**

Agro Chemical and Food Company has 5 strategic pillars and objectives within its Strategic Plan for the FY 2018/2019- 2022/2023.

These strategic pillars are as follows:

Pillar 1: Raw Materials

Pillar 2: Company Revenues and profits

Pillar 3: Factory operations

Pillar 4: Environment, Occupational Safety and Quality Management

Pillar 5: Institutional Capacity

ACFC develops its annual work plans based on the above 5 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2022/2023 period for its 5 strategic pillars, as tabulated below



Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1: Raw material	Enhance stability of Raw Materials supply	Quantity of Molasses procured.	-Price Negotiation with Millers -Sign Contracts with Transporters - Storage tanks refurbished	-Molasses Sourcing has ranged from 61,753 tons (2019/2020), 66,344 tons(2020/2021), 69,521 tons (2021/22) and 61,606 in 2022/2023. This trend arises from changes in climatic conditions which affect availability of sugarcane. - 3 molasses tanks fabricated/refurbished -Storage capacity maintained at 13,800MT -Molasses quality enforcement policy implemented
Pillar 2: Company Revenues and profits	Strengthen Company Revenue and Profit Streams	-Approved sales & marketing plan -Diversification into new products	-Sales & marketing plan implemented -Credit policy implemented -Product portfolio diversification	Sales turnover registered modest growth from Ksh.1.573 billion(2020/2021), Ksh.1.758 billion in 2021/22 and Ksh. 1.920 billion in 2022/23. -Increased product range with introduction of value-added products
Pillar 3: Factory operations	Improve factory production efficiencies	Maximize factory capacity utilization	-Revamp alcohol fermentation plant -Refurbish boilers -Revamp effluent management	*Alcohol production was 13.565 million litres (2019/20), 15.582 million litres (2020/21), 15.007 million litres(2021/22) and 12.005 million Litres (2022/2023) *Denatured spirits production 383,987 litres (2019/20), 431,611 litres(2020/21), 345,150 Litres(2021/22) and 310,360 Litres (2022/23) . * Wet Yeast produced 740 Tons (2019/20), 603 Tons (2020/21), 724 tons (2021/22) and 740.58 tons (2022/23) - Boiler Refurbished -Construction of New Effluent plant completed
Pillar 4: Environment, Occupational Safety and Quality Management	Improve the Company Environment, Occupational Safety and Quality management systems	Develop, implement, and maintain the Quality, Environment, Occupational Safety and Health and Food Safety Management systems	-Domesticate Relevant National policies and ensure compliance - Statutory audits -Undertake programs to ensures maintenance ISO certifications	-All relevant polices domesticated and approved -Increased compliance with relevant standards -ISO certifications acquired and maintained (ISO 9001:2015) -Pool of trained personnel



Pillar 5: Institutional Capacity	Strengthen ACFC Institutional capacity	- No. of physical facilities improved - No. of human resource instruments reviewed -No. of Staff Trained	-Upgrade communication infrastructure -Staff Trainings done -Review & implement HR instruments - Improved Governance	-Improved ICT infrastructure -Training plan implemented -5Nos. of HR instruments approved and implemented -Training of board members on Mwongozo
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VII. 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 provides 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 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, KDC, two directors, TMIL, three directors, representative of P.S, Ministry of Agriculture and Livestock (State Department for Crop Development and Agricultural Research) 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 and TMIL provides the resident Director and Chief Executive.

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



Board. The RD&CE implements Board decisions and instructions with the assistance of the management team.

Board Meetings:

The Board meets regularly and at least four times a year to, amongst other things, agree on the Company's objectives and strategies to realize the objectives, review performance against agreed targets, consider and approve the annual and quarterly financial statements and to discuss other matters of strategic importance to the Company. Senior management of the Company attends Board meetings by invitation, whenever necessary. During the year, the schedule of meetings held, and attendance thereof is as tabulated below:

	NAME	10/05/2023	19/05/2023	29/06/2023
1.	Mr. Mohamed Bulle-Chairman	√	√	√
2.	Mr. Rodgers Ruthugua	√	√	√
3.	Ms. Mbatha Mbithi	√	√	√
4.	Mr. John Karia	√	√	√
5.	Mr. Suresh Sharma	√	√	√
6.	Mr. John Kiruthu	√	√	√
7.	Mr. James Wanjohi	√	√	√
8.	Ms. Margaret Wamuyu	√	√	√
9.	Mr. Ashok Agrawal	N/A	N/A	N/A
10.	Mr. Timothy Ogwang	√	√	√

KEY	
√	Present
x	Absent
N/A	Not Applicable

Board Committees:

For the 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 involve 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 reported to the Board. This is aimed at ensuring close monitoring of performance trends, forecasts as well as actual performance against budgets.

Board Charter

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

Appointment and Removal of Directors

The Board of Directors are appointed by respective shareholders/institutions.



Induction and Training of Directors

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

Code of conduct and Ethics

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

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

Conflict of Interest

Each Board of Director undertakes to disclose to the Board fully and immediately it comes to his/her attention any real or potential conflict of interest direct or indirect, which they may have. A Director with such a



conflict shall not participate in any discussion of any such topic or vote on it.

Board Remuneration

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



VIII. MANAGEMENT DISCUSSION AND ANALYSIS

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

I. OPERATIONAL PERFORMANCE

During the year ended June 30, 2023, the Company faced shortage of molasses leading to the closure of the alcohol plant for 42 days hence we could not meet the set target for alcohol sales. The cost of sales was equally high due to the increased cost of molasses from Kshs. 6,000 to above Kshs. 35,000 per ton.

a. Molasses Procurement

The Company's operations depend on the quantity of molasses that we procure from the sugar companies. During the financial year 2022/2023, the Company procured 61,606 tons (2021/222: 69,552) tons of molasses against a target of 65,000 tons.

b. Production

The Company produced 12.005 million litres of alcohol, 15 tons of ADY and 714 tons of Wet Yeast against the budget of 15.0 million litres of alcohol, 250 tons of ADY and 800 tons of Wet Yeast. The Company fell short of achieving the set production target for Alcohol, ADY and Wet Yeast due to lack of molasses and stiff competition for imported instant yeast by bakeries. The Company performance in the last five years is as tabulated below:

PRODUCTION	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Alcohol '000: Lts	11,120	13,565	13,874	15,007	12,005
% of Installed Capacity	62%	75%	77%	83%	67%
ADY (Tons)	70	280	39	30	15
% of Installed Capacity	6%	23%	3%	3%	1%
Wet Yeast (Tons)	805	740	603	724	741
Carbon dioxide	83	42	399	458	
Compounded Spirit	24,984	10,574	-	16,147	22,710



c. Sales

The Company sold 14.955 million litres of alcohol, 13 tons of ADY and 741 tons of Wet Yeast against the budget of 15.0 million litres of alcohol, 250 tons of ADY and 800 tons of Wet Yeast. The Company sales performance in the last 5 years is as tabulated below:

SALES	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Alcohol '000: Lts	10,454	13,216	13,495	15,128	14,955
% of Installed Capacity	58%	73%	75%	84%	83%
ADY (Tons)	66	65	39	29	13
% of Installed Capacity	6%	5%	3%	2%	1%
Wet Yeast (Tons)	805	740	603	724	741
Carbon dioxide	94	42	399	458	
Compounded Spirit	29,408	9,950	2,675	15,021	19,611



II. FINANCIAL PERFORMANCE

The Company's performance in the last five years is as tabulated below:

AGRO CHEMICAL AND FOOD COMPANY LIMITED INCOME STATEMENT FOR THE LAST FIVE YEARS					
	2018-2019	2019-2020	2020/2021	2021/2022	2022/2023
SALES	1,212,743,816	1,583,821,062	1,509,691,352	1,683,768,679	1,920,742,3
OTHER INCOME	60,225,037	70,515,720	63,607,209	71,363,079	36,413,5
TOTAL INCOME	1,272,968,854	1,654,336,782	1,573,298,562	1,755,131,758	1,957,155,8
COST OF SALES					
Materials, Energy& Packing	791,688,300	944,479,991	788,746,081	1,054,044,833	1,775,865,9
Direct Salaries,Wages& Benefits	253,749,976	257,399,082	266,364,713	263,403,475	262,109,8
Plant Maintenance & Other Factory Overh	76,022,914	121,053,750	102,221,019	86,890,332	97,669,1
Selling and distribution	6,821,922	5,911,640	4,792,169	5,728,212	6,720,3
Excise duty	37,081,379	13,942,110	4,355,148	24,552,275	37,466,4
TOTAL COST OF SALES / DIRECT COSTS	1,165,364,491	1,342,786,573	1,166,479,131	1,434,619,126	2,179,831,6
GROSS PROFIT/ (LOSS)	107,604,363	311,550,209	406,819,431	320,512,632	(222,675,8
ADMINISTRATION EXPENSES	99,983,044	92,145,938	95,357,407	89,528,318	78,320,8
ESTABLISHMENT EXPENSES	11,592,120	17,112,455	16,689,168	19,903,746	30,186,6
FINANCE EXPENSES	816,496	2,741,413	777,043	360,498	26,5
STAFF COSTS	109,403,499	110,461,382	114,156,306	113,174,549	112,395,7
	221,795,158	222,461,188	226,979,924	222,967,112	220,929,7
PROFIT \ (LOSS) BEFORE LOAN INTEREST & DEPRICIATION	(114,190,795)	89,089,022	179,839,507	97,545,520	(443,605,8
DEPRECIATION	106,022,879	107,488,533	110,863,972	100,631,130	105,399,7
AMORTIZATION	5,446,437	2,015,522	98,325	4,103,250	4,103,7
PROFIT (LOSS) BEFORE LOAN INTEREST, TAX AND EXCHANGE	(225,660,111)	(20,415,034)	68,877,210	(7,188,860)	(553,108,8
(GAIN)/ LOSS					
INTEREST ON LOANS	278,947,083	284,430,073	294,966,325	306,712,978	327,349,7
PROFIT / (LOSS) BEFORE TAX	(504,607,193)	(304,845,107)	(226,089,115)	(313,901,838)	(880,458,0
TAXATION	16,233,798	10,960,066	11,050,261	7,172,362	7,495,7
PROFIT / (LOSS) AFTER TAX	(520,840,991)	(315,805,173)	(237,139,376)	(321,074,200)	(887,953,7



III. PROJECTS OR INVESTMENTS

During the year, the Company implemented projects aimed at improving profitability as per the approved budget and strategic plan. The CSTR project was completed and is currently under commissioning. This will enhance biogas generation at the factory hence reduce the fuel oil consumption.

IV. COMPLIANCE WITH STATUTORY REQUIREMENTS

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

V. CHALLENGES FACING THE COMPANY

The Company faces challenges in operations as enumerated below:

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

VI. MATERIAL ARREARS IN STATUTORY AND OTHER FINANCIAL OBLIGATIONS

The Company has no material arrears in Statutory obligations and all obligations were remitted in time. However, due to liquidity challenges the Company did not repay the GOK loan during the year and the balance stood at 10,565,268,951.



IX. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

Agro Chemical exists to transform lives. This is our purpose, the driving force behind everything we do. It is what guides us to deliver our strategy, putting the customer/ Citizen first, delivering relevant goods and services, and improving operational excellence. Below is an outline of the organization's policies and activities that promote sustainability.

I. **SUSTAINABILITY STRATEGY AND PROFILE**

The company's sustainability strategy aims to create long-term value for the firm, its stakeholders and the wider society. ACFC aims to build a culture of sustainability with its employees and all its stakeholders as identified in its strategic plan for 2018/2019-2023/2023. The company has developed a sustainability policy covering economic, environmental and social pillars which it continues to implement while carrying out its operations.

a. **Molasses Sourcing**

ACFC operates in a dynamic environment and hence the supply of its main raw material, molasses, is not assured and depends on unpredictable weather conditions. During the year 2022/23 the company faced an acute shortage of molasses. This led to an increase in molasses cost from a budget of Kshs. 6,000 per to above Kshs. 35,000 per ton and 42 days of plant closure.

b. **Ethanol Market**

The alcohol market in which ACFC operates has suffered from adverse competition from emerging distilleries as well as cheap imports from neighbouring countries. During the year, the company was not able to achieve the reported turnover as a result of lack of molasses. Since ACFC operates a standalone distillery, it continues to experience cost disadvantages compared to its peers in the alcohol market.

c. **Enhanced Product Range**

In order to achieve financial sustainability, ACFC considers diversification as key in its strategic plan. The Company has continued to launch new products. We are hopeful that the new initiatives will pick up in the coming years, leading to enhanced company revenues and profitability.

d. **Continuous Stirrer Tank Reactor(CSTR)**

The construction of a new CSTR biogas plant worth 150 million was completed during the current financial year. This will boost bio-gas



generation to be used in the boiler leading to lower usage of fuel oil hence reduced cost of production. This initiative will further assist in the improvement of the company's effluent management system.

e. **ENVIRONMENTAL PERFORMANCE REPORT FOR ACFC**

ACFC environmental sustainability practices are guided by the national environmental performance and environmental sustainability performance contracting requirements. The Company has developed an internal environmental policy statement to guide its day-to-day activities in view of managing the environmental aspects that may emanate from its operations.

In line with its environmental policy statement the Company focused in following key areas:

Statutory requirements

II. ACFC has installed an operational waste management strategy for:

- a. Liquid waste (effluent) where it has installed a functional effluent treatment plant. It has also taken an opportunity to generate biogas (a green technology) for internal generation of steam thus compensating on reliance in high density fuel oil.
- b. In solid waste management, ACFC has engaged a NEMA contracted waste handling external service provider to ensure safe solid waste management. The Company is already implementing the best available practices i.e., recycle, reuse, reduce and recover (4Rs) of solid waste management.

III. Environmental compliance

The Company has continually carried out plant annual statutory environmental audits, plant inspections and environmental impact assessments for new installations. Alongside these requirements the Company is also carrying out hazardous waste management through incineration. The Company continues to forward environmental sustainability reports to NEMA on a quarterly basis as per the performance contracting guidelines.

IV EMPLOYEE WELFARE

We developed a new Human Resource Policies & Procedure Manual, Career guidelines and remuneration structure that governs the process of recruitment, Gender mainstreaming, staff skills development, staff performance appraisal, reward management & sanction system.



Recruitment Procedure:

This process is usually done based on the guidelines outlined on section 2.16 of the Human Resource Policies and Procedures Manual. This entails development of a Human Resource plan based on comprehensive job analysis and which is reviewed every year to address emerging issues and needs. All vacant positions within the establishment, which are to be filled substantively originate from the various HODs supported by good justification for the recruitment and confirmation that the positions are not only within the approved establishment but also fully funded within the budget.

Gender mainstreaming & persons with disability:

The Company observes gender mainstreaming balance on appointment, promotion and ensure that a minimum of a third (1/3) are of either gender with consideration on Disability or Diversity.

Staff Performance Appraisal System:

This process is guided by section 8. of the Human resource policy. It outlines processes involved in work planning, setting of agreed performance targets, feedback, and reporting. It is linked to other human resource systems and processes including employee development, career guidelines, placement, rewards, and sanctions.

The overall objective of the appraisal system is to manage and improve performance by enabling a higher level of members of staff participation and involvement in planning, delivery, and evaluation of work performance. This framework therefore establishes a basis for rewarding exemplary performance and administering sanctions for poor performance, motivating employees to have a positive attitude to work and to enhance productivity in the Company.

Training /Skills Development:

As embedded on section 9 of the Human Resource Policy Manual and Career Progression manual, the company continuously upgrade employee's core competencies, knowledge, skills, and attitudes to ensure that their performance meets and/or exceeds the minimum expectations and benchmarks of best practices to ensure effective delivery of its broad mandate. This helps employees enhance their efficiency and effectiveness, gain competencies and skills, desired work ethics and values and corporate culture, in preparation for future technological and structural needs.



Health, Safety

In line with section 14 of the Human Resource policy, The Company commits itself to the achievement of the highest standards of health and safety in the workplace, and the elimination or minimization of health and safety hazards and risks that may affect its employees. In this regard, it will implement policies and programs that assure their protection from such hazards and disasters. The policies and programs will be implemented in compliance with the provisions of the Occupational Safety and Health Act, 2007 and other Labour Laws. In compliance the Company obtains a workplace certificate from the Director of Occupational safety and health (DOSHS).

V. Marketplace practices

The Company has in place a service charter that enables it to achieve the highest possible level of customer satisfaction. The service charter provides for fair pricing mechanism by considering competitor's prices as well as production costs incurred by the company while setting prices of goods and services.

The Company regularly meets competitors in order to come up with base prices of its goods and services. The Company has in place an anti-corruption policy wherein people are encouraged to report corruption practices through the recommended channels.

a. Responsible competition practice.

ACFC upholds ethical marketing practices in its endeavors to ensure sustainable business growth. The product packaging adopted by the Company is always environmentally friendly.

While selling spirits to customers the Company always ensures adherence to the existing laws and regulations governing each product. All product labels are approved by KEBS with each product line subjected to stringent quality checks since the Company considers quality a key selling point to its customers.

Over the years, the Company has been involved in CSR activities with annual budget allocation to support Community programs as part of its ethical behavior within society.

Through various medias, the Company places advertisements that are aimed at ensuring disclosure of critical information on its products including inputs used in the production process and at all times making sure that no such adverts are considered offensive to competitors.



b. Responsible Supply chain and supplier relations .

The Company considers the environmental and human impact on our products' journey through the supply chain, from raw materials sourcing to production, storage, delivery, and even transportation. The goal is to minimize environmental harm from factors like energy usage, water consumption and waste production while having a positive impact on the people and communities in and around our operations.

Dealing with our suppliers on sustainability

- **Use of sustainable packaging material -all the products are packaged in cartons which can be recycled for reuse,**
- Good payment terms to molasses transporters and other suppliers- the credit policy of 30 days after delivery is always adhered to. As such there is timely delivery of goods, works and services to the factory.
- Procurement from vulnerable members of society. There is an allocation of 30 % of the procurement budget to this group of the local community which has created a good relationship between the organization and the local community.
- Pre-qualification of suppliers-all suppliers are evaluated before they are incorporated in our supplier database and re-evaluated periodically to ensure that the company deals with only those suppliers who practice ethical trading.
- Local sourcing of goods works, and services. Access to 40% of procurement budget is spent on local procurement. As this improves the bottom line the cost of transport from overseas and custom duty is avoided.

Product stewardship

ACFC endeavors to safeguard consumer rights and interests through compliance with all the relevant legislations. We provide annual forums for our customers and also arrange visits to their premises so as to be able to address their concerns.

In addition, we maintain customer complaints handling infrastructure with seamless feed-back system for purposes of ensuring prompt response to customer issues.

Corporate Social Responsibility/Community Engagements

The Company continued to actively participate in various projects as per our Corporate Social Responsibility (CSR) policy.

The Company continues to run Muhoroni Furaha Primary School and Junior Secondary School which is fully funded by the Company. The



school enroll children from the employees and the neighbouring community and is one of the top performing schools in the Country.



X. DIRECTORS' REPORT

The Directors present their report, statement of profit & loss and other comprehensive income, the statement of financial position, statement of changes in equity and statement of cash flows for the year ended 30th June 2023.

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

Principal Activities:

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

Results:

The results of the Company for the year ended June 30, 2023, are as set out on page 1. Below is a summary of the Company's performance during the year.

During the year 2022/2023, the Company produced 12.005 million litres of alcohol, 15 tons of Active Dry Yeast, 741 tons of Wet Yeast and realized a turnover of Ksh. 1,920,742,305 (2021/2022 1,683,768,679). The operating loss before interest on loans was Kshs. 553,108,066 (2021/2022: of Kshs. 7,186,860). However, after charging interest on loan of Kshs. 327,349,861 (2021/2022: Kshs. 306,712,987), the Company registered a net loss of Kshs. 880,458,047 (2021/2022: loss of Kshs. 313,901,838). After charging corporate tax of kshs. 7,495,478 (2021/2022 Kshs. 7,172,362) the company registered a loss of Kshs. 887,953,525 (2021/2022) loss of Kshs. 321,074,200).

Dividends:

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



Directors

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

Auditors:

The Auditor General is responsible for the Statutory Audit of the Company for the year ended June 30,2023 in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By order of the Board

SHARON CHERUIYOT
COMPANY SECRETARY

Date: 26th September 2023



XI. 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 affairs of the Company for and as at the end of the financial year ended on June 30, 2023. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act and PFM Act, 2012. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2023, 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 controls.

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

Approval of the financial statements

The Company's financial statement was approved by the Board of Directors on 26th September 2023, and signed on its behalf by:

MOHAMED BULLE, EBS
CHAIRMAN

ASHOK AGRWAL
RESIDENT DIRECTOR AND CHIEF EXECUTIVE

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON AGRO CHEMICAL AND FOOD COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on the Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management, and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

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 1 to 47, which comprise of the statement of financial

position as at 30 June, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 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 respects, the financial position of the of Agro Chemical and Food Company Limited as at 30 June, 2023, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards(IFRS) and comply with the Public Finance Management Act, 2012 and the Companies Act.

Basis for Qualified Opinion

1. Incomplete Record of Sales of Spirits

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects a turnover of Kshs.1,920,742,305, which comprises of spirit sales of Kshs.1,819,129,814, carbon dioxide of Kshs.1,929,381 and yeast sales of Kshs.99,683,110. The company had budgeted to sell 15,000 litres of spirits, with a total value of Kshs.2,037,623,600. However, 14,955 litres, which is 99.7% of the budget was sold with sales value of Kshs.1,920,742,305, being an increase of 94.43%. During the same period, the prices of the spirits were adjusted upwards by about 5%, due to the increase in the prices of molasses. Management has not confirmed why the sales value did not increase as anticipated.

In the circumstances, the accuracy and completeness of the reported sales value on spirits could not be confirmed.

2. Unsupported Cost of Sales

The statement of loss and other comprehensive income and as disclosed in Note 7 to the financial statements reflects an amount of Kshs.2,173,111,373 relating to cost of sales, which includes cost of sales on materials, energy and packing of Kshs.1,775,865,997, out of which Kshs.1,260,109,600 was cost incurred in producing 12,003,944 litres of spirit. However, Management did not provide a schedule showing how the cost of spirit was accumulated.

In the circumstances, the completeness and accuracy of the cost of sales disclosed in these financial statements, amounting to Kshs.2,173,111,373 could not be confirmed.

3. Payment for Undelivered Molasses

The statement of profit or loss and other comprehensive income and as disclosed in Note 7 to the financial statements reflect an amount of Kshs.2,173,111,373 in respect of cost of sales. The amount includes Kshs.1,775,865,997 being cost of materials, energy and

packing which further includes the cost of molasses purchased totalling Kshs.1,155,296,770. Examination of records provided for audit revealed that a total of three hundred and eighty-two (382) Tons of molasses with an estimated value of Kshs.9,757,810 were not delivered to the company but was paid for.

In the circumstances, the accuracy and completeness of the cost of sales for the year of Kshs.2,173,111,373 could not be confirmed.

4. Abnormal Weight Variances on Delivery of Molasses

The statement of profit or loss and other comprehensive income reflects cost of sales amount of Kshs.2,173,111,373. Included in this amount and as disclosed in Note 7 to the financial statements was Kshs.1,775,865,997 being cost of materials, energy and packing, which further includes cost of molasses received during the year under review of Kshs.1,155,296,770.

Review of a sample of twelve (12) entries of molasses delivery records provided for audit revealed that there were abnormal weight variances between what was recorded in the suppliers' delivery records, and the records maintained at the weighbridge in the procurement of molasses. The twelve entries reflected that the company received a total of 308,590 kilograms of molasses, while the weighbridge showed an amount of 288,080 kilograms were received, resulting to a variance of 20,510 kilograms not accounted for. During the year under review, the price of molasses ranged between Kshs.6,000 and Kshs.35,000 per ton of molasses. Taking an average of the two prices, it would mean that the company lost an amount of Kshs.420,455 for the twelve entries only, which implies that the company has been paying for more molasses than actually delivered.

In the circumstances, the accuracy and completeness of the cost of sales amounts could not be confirmed.

5. Long Outstanding Trade and Other Receivables

The statement of financial position and as disclosed in Note 18 to the financial statements reflects trade and other receivables balance of Kshs.638,975,198, which was a decrease by Kshs.184,550,872 when compared to the prior year amount of Kshs.823,526,070. Sampled debtors totalling Kshs.362,098,409.29 were not supported with contract agreements, Debtor circularization forms and approvals. The aging analysis showed that they had exceeded more than the 121 days, and some dated back in the year 2005.

In the circumstances, the completeness, accuracy and the recoverability of the debtor's amounts could not be confirmed.

6. Goods Received but not Invoiced

The statement of financial position and as disclosed in Note 24 to the financial statements reflects trade and other payables balance of Kshs.595,400,261. Included in this amount is Kshs.32,429,556 recognised as goods received not invoiced which had an opening debit balance of Kshs.20,700,057. It was observed that some postings reflected as goods not invoiced had no monetary value attached to them while others had negative balances with some of the postings dating back to 1 July, 2022.

In the circumstances, the completeness and accuracy of the trade and other payables balance of Kshs.595,400,261 could not be confirmed.

7. Long Outstanding Debtors with Credit Balances

The statement of financial position and as disclosed in Note 24 to the financial statements reflects trade and other payables balance of Kshs.595,400,261, out of which Kshs.240,216,016 relates to debtors with credit balances. Out of this amount, Kshs.221,303,700 related to outstanding accounts of over 120 days. It was not clear why the company has continued to hold debtors' pre-payments for over four months, without allocating the amounts received to the respective debtor.

In the circumstances, the completeness and accuracy of the trade and other payables balances could not be confirmed.

8. Noncompliance with Financial Management Regulations on Settlement of Outstanding Accounts

The statement of financial position and as disclosed in Note 24 to the financial statements reflects trade and other payables balance of Kshs.595,400,261 out of which an amount of Kshs.118,473,635 relates to trade payables. Review of the aging analysis for the trade and other payables revealed that trade payables amounting to Kshs.8,039,700 had been outstanding for over 120 as at year end. It is not clear why Management did not ensure settlement of outstanding accounts as a first charge.

In the circumstances, the completeness and accuracy of the trade and other payables balances could not be confirmed.

9. Failure to Pay Interest on Loan

The statement of profit or loss and other comprehensive income and as disclosed in Note 13 to the financial statements reflects an amount of Kshs.327,348,647 relating to finance costs. Review of loan interest schedule revealed that the company has accumulated loan default interest totalling to Kshs.327,348,647 that are long outstanding. No efforts appear to have been made towards the repayment of the loan interest.

In the circumstances, the going concern of the company is doubtful.

10. Failure to Service Borrowings

The statement of financial position and as disclosed in Note 26 to the financial statements reflects loans balance of Kshs.10,565,268,951. The company took a seven-year loan of Kshs.2,941,884,000 from a club in 1995 for construction of the factory vide a loan agreement dated 19 October, 1995 at an interest rate of 7% per annum. However, the company has not repaid the loan to date resulting in an accumulated interest on the loan of Kshs.6,575,110,665. In addition, the company took a GOK loan of Kshs.826,074,772.80 in 1995 and last serviced it in the year 2017. The loan has accumulated interest amounting to Kshs.1,048,274,286. Management has not demonstrated measures taken to repay the loans.

In the circumstances, the accuracy and completeness of the loan balance could not be confirmed.

11. Un Supported Procurement of Legal Services

Review of schedules provided to support expenditure classified as legal fees together with the supporting documentation revealed that the Management entered into a contract with an advocate for provision of consultancy service at a contract cost of Kshs.2,307,200. The terms and conditions of the firm indicated that the firm was to carry out compliance checks for the period July, 2017 to June, 2020 following KRA tax assessment of Kshs.1,268,054,221. At the time of audit, a total of Kshs.2,020,000 had been paid to the firm for services rendered. However, it was not clear how the advocate was identified and awarded the contract as there was no information in regard to user requisition, specification of services to be rendered, tender advertisement and evaluation. In addition, notification of award, letter of acceptance and contract agreement were not provided for audit review.

In the circumstances, the propriety and accuracy of the expenditure could not be confirmed. In addition, Management was in breach of the law.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Agro Chemical and Food Company Limited Management in accordance with ISSAI 130 on the 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

Budgetary Control and Performance

The Company's revenue budget amounted to Kshs.2,111,723,600 against actual receipts of Kshs1,957,155,382 resulting in a budget deficit of Kshs.154,567,768 or seven (7%) of the budget. Similarly, the Company budgeted to spend a total of Kshs.787,405,409 against the actual expenditure of Kshs.665,277,671 resulting in an overall under-expenditure of Kshs.122,127,738 or 16% of the budget.

In the circumstances, the underperformance and under-expenditure may have negatively affected the planned activities of the Company.

My opinion is not modified on the effects of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the issues remain unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Perennial Extension of Commissioning of Effluent Treatment Plant (ETP)

The statement of financial position reflects a balance of Kshs.2,608,337,610 being property plant and equipment. Included in the schedule is an amount of Kshs.173,361,272 being work in progress on the effluent treatment plant. Review of the documentation revealed that on 27 February, 2023 the contractor wrote a letter requesting for a further extension for commissioning of the biogas plant after a failure to commission in the earlier deadline of second week of February, 2023.

The project Evaluation Committee held a meeting on the 9 March, 2023 and deliberated on reasons attributed to the delay of commissioning the Effluent Treat Plant (ETP) and found out that the delay was beyond both parties control as explained in the Evaluation Committee minutes dated 9 March, 2023. In view of the foregoing, the Evaluation Committee ratified the new dates for commissioning of the plant to start in the second week of March, 2023 and to end the last week of June, 2023.

The committee further resolved that this was the final extension being granted and that any further delay in completion of the project beyond the month of June, 2023 would attract a penalty as per clause 6.17 of page 21 of the contract without further reference. The commissioning had previously been extended twice- on 1 September, 2022 and on 17 November, 2022. During the final year in audit it was observed that the projects had still not been commissioned and thus value for money is yet to be achieved. In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAI) 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements

comply, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

Conclusion

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

Basis for Conclusion

1. Non-Compliance with a Third (1/3) of Basic Pay Rule

The statement of profit or loss and other comprehensive income reflects administration expenses of Kshs.221,530,401. Included in this amount is an amount of Kshs.112,332,773 relating to staff costs. Review of payroll for the year under review revealed that during the month of June, 2023 one hundred and thirty-two (132) employees suffered payroll deductions of more than two thirds of their basic pay.

In the circumstances, Management was in breach of the law.

2. Non-Compliance with the Law on Ethnic Composition

The statement of profit or loss and other comprehensive income reflects administration expenses of Kshs.221,530,401. Included in this amount is an amount of Kshs.112,332,773 relating to staff costs. Further, Note 11(b) indicates that the company had 222 employees as at year end. Review of employees' bio-data for June, 2023 revealed that the company had two hundred and twenty-four (224) employees out of which one hundred and twelve (112) or approximately fifty percent (50%) were from the dominant community. This was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community.

In the circumstances, Management was in breach of the law.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have not been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are not in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- 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 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 to 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 to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

03 May, 2024



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED
30 JUNE 2023

Revenues	Notes	2023 Kshs	2022 Kshs
Sales / Turnover	6	1,920,742,305	1,683,768,679
Cost of Sales	7	2,173,111,373	1,428,890,914
Gross Profit/ (Loss)		(252,369,068)	254,877,765
Other Income			
Gain/(Loss) on Disposal of non financial assets	8	-	925,300
Other Income	9	17,766,607	24,475,871
Finance Income	10	19,246,211	16,430,569
TOTAL REVENUES		37,012,818	41,831,740
OPERATING EXPENSES			
Administrative costs	11	221,530,401	223,357,042
Selling and Administration Costs	12	6,720,314	5,728,212
Finance Costs	13	327,348,647	307,058,537
Depreciation of property, plant and equipment	15 (A)	105,399,186	100,631,130
Amortization of intangible assets	16	4,103,250	4,103,250
TOTAL OPERATING EXPENSES		665,101,797	640,878,171
OPERATING PROFITS / (LOSS)		(880,458,047)	(344,168,666)
INCOME TAX			
Taxation Current Year	14	7,495,478	7,172,362
TOTAL INCOME TAX		7,495,478	7,172,362
Net Profit / Loss after tax		(887,953,525)	(351,341,028)



STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2023

ASSETS	NOTES	2022-2023	2021-2022
		KSHS (12 Months)	KSHS (12 Months)
NON-CURRENT ASSETS			
Property, Plant and Equipment	15(A)	2,608,337,610	2,627,485,728
Intangible Assets	16	8,206,500	12,309,750
CURRENT ASSETS			
Inventories and Work In Progress	17	253,120,966	190,795,277
Receivables	18	638,975,198	823,526,070
Short Term Deposits	19	259,440,307	657,625,500
Cash and cash equivalents	20	53,911,958	134,776,436
		1,205,448,428	1,806,723,283
TOTAL ASSETS		3,821,992,538	4,446,518,761
EQUITY			
Share Capital	21	60,000,000	60,000,000
Capital Reserves	22	2,389,788,369	2,389,788,369
Accumulated deficit	23	(9,813,151,220)	(8,925,197,695)
TOTAL EQUITY		(7,363,362,850)	(6,475,409,325)
LIABILITIES			
CURRENT LIABILITIES			
Trade and Other Payables	24	595,400,309	648,999,300
Provisions	25	17,190,652	22,727,711
Loans	26	10,565,268,951	10,237,918,611
Tax Payable	27	7,495,477	12,282,465
TOTAL LIABILITIES		11,185,355,388	10,921,928,086
TOTAL EQUITY AND LIABILITIES		3,821,992,538	4,446,518,761

The financial statements were approved by the Board of Directors on September 26, 2023, and signed on their behalf by:


Ashok Agrawal
Resident Director
And Chief Executive


Edwin Owiti
General Manager Finance and ICT
ICPAK M/NO. 6237


Mohammed M. Bulle, EBS
CHAIRMAN OF THE BOARD



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023

For the year ended 30th June 2023	Share Capital	Revaluation Reserve **	Revenue Reserves	Totals
	(Kshs)	(Kshs)	(Kshs)	(Kshs)
As at 1st July 2021	60,000,000	2,000,165,592	(8,604,123,494)	(6,543,957,902)
Profit for the year	-	-	(321,074,200)	(321,074,200)
On revaluation		389,622,778		389,622,778
As at 30th June 2022	60,000,000	2,389,788,370	(8,925,197,694)	(6,475,409,324)
As at 1st July 2022	60,000,000	2,389,788,370	(8,925,197,694)	(6,475,409,324)
Profit for the year			(887,953,525)	(887,953,525)
As at 30th June 2023	60,000,000	2,389,788,370	(9,813,151,219)	(7,363,362,849)



STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2023

		2023	2022
		KSHS.	KSHS.
Cash Generated from / (Used in) Operations			
Cash from operations	29	(384,992,005)	250,521,421
In/Interest paid			
Dividends paid			
Taxation Paid	27	(7,806,956)	(10,415,619)
Net Cash generated from / (Used in) operating activities		(392,798,961)	240,105,802
INVESTMENT ACTIVITIES			
Purchase of assets	15(A)	(86,250,767)	(113,507,105)
Purchase of intangible assets		-	-
Disposal of Asset - Sales Proceeds		-	1,025,300
Net Cash generated from / (Used in) investing activities		(86,250,767)	(112,481,805)
FINANCING ACTIVITIES			
Net Cash generated from / (Used in) financing activities		-	-
Net Increase/(decrease) in cash and cash equivalents(a+b+c)		(479,049,728)	127,623,997
Cash and cash equivalent at the beginning of the year		792,401,994	664,777,997
Cash and cash equivalent at the end of the Year	29(C)	313,352,266	792,401,994



STATEMENT OF COMPARISON OF BUDGET AGAINST ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2023

Revenue	Budget	Actual Outcome	Performance Difference	Performance %	Remarks
SALES	2,037,623,600	1,920,742,305	(116,881,295)	-6%	Unfavourable
PROFIT / (LOSS) ON SALE OF FIXED ASSETS	6,100,000	-	(6,100,000)		
INTEREST ON TREASURY BILLS & FIXED DEPOSITS	42,000,000	19,246,211	(22,753,789)	-54.2%	Favourable
RENT PAID BY EMPLOYEES	8,000,000	6,534,814	(1,465,186)	-18%	Favourable
MISCELLANEOUS INCOME	18,000,000	10,632,502	(7,367,498)	-41%	Favourable
TOTAL INCOME	2,111,723,600	1,957,155,832	(154,567,768)	-7%	Unfavourable
Expenses					
Cost of sales					
Materials, Energy& Packing	990,347,292	1,775,865,997	(785,518,705)	179%	Unfavourable
Direct Salaries, Wages& Benefits	365,949,740	262,109,803	103,839,936	72%	Favourable
Plant Maintenance & Other Factory Overheads	83,270,500	97,669,160	(14,398,660)	117%	Unfavourable
Selling and Distribution	2,664,200	6,720,314	(4,056,114)	252%	Favourable
Excise Duty	185,413,536	37,466,413	147,947,123	20%	Unfavourable
	-	-	-		
TOTAL COST OF SALES / DIRECT COSTS	1,627,645,267	2,179,831,687	(552,186,419)	134%	unFavourable
Gross Profit	484,078,333	(222,675,854)	(706,754,187)		
Expenses					
ADMINISTRATION EXPENSES	341,621,639	220,929,776	120,691,864	65%	Favourable
Depreciation	129,085,176	109,502,436	19,582,740	85%	Favourable
INTEREST ON LOANS	316,698,594	327,349,981	(10,651,387)	103%	UnFavourable
COOPERATION TAX	-	7,495,478	(7,495,478)		
Total Expenditure	787,405,409	665,277,671	122,127,739	84%	Favourable
Surplus	(303,327,077)	(887,953,525)	(584,626,448)		UnFavourable

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

a) Sales

During the current year, the sale of ADY, Carbon dioxide, Compounded spirits and Wet yeast decreased due to intense competition and closure of the alcohol plant for 42 days.

b) Plant, Maintenance and Other factory Costs

The increase in plant and maintenance costs is as a result of plant maintenance , desludging of lagoons and other factory expenses.

c) Materials energy and packing

The increase in Material, energy and packing costs is due to an increase in fuel oil consumption due to nonfunctioning of the bulk volume fermenter and Increase in cost of molasses from Kshs. 6,000 per ton to above Kshs. 35,000 per ton.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2023

1. GENERAL INFORMATION

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

Registered Office

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

Principal place of Business

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

Principal Activities

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Statement of Compliance

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



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

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

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

Going Concern

The Company made a loss after tax of Kshs. 887,953,525 (2021/2022: Kshs. 321,074,200) during the year which was added to accumulated losses totaling Kshs. 9,813,151,220 (2021/2022: 8,925,197,695). In addition, the Company was in a net current liability position of Kshs. 9,979,906,960 (2021/2022: Kshs. 9,115,204,804). These and other conditions indicate doubt as to the going concern status of the company. Management has put in place the following measures to address the situation:

- Presented the Company restructuring proposal to the parent Ministry and National Treasury to restructure the Company's balance sheet.
- Written to the National Treasury through the parent Ministry to write off the loan and freeze interest charge on its loan.
- Invested in new projects such as Carbon dioxide and Compounded spirits to improve the profitability of the Company.
- Invested in a biogas driven boiler to reduce the cost of energy and fuel used in the boiler.
- Introduced austerity measures which have led to reduced costs.
- Prudent management of excess funds and investing the same in interest earning deposits.
- Utilized internally generated funds to finance its activities and investments as opposed to external borrowings.
- Introduced new product lines like Agro Plus, hand sanitizers and Mediplus spirits to improve the bottom line.
- The Company is under privatization and consultations are currently on going.
- The Company has completed the CSTR project and its expected that the cost of energy will be brought down.



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

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

i) ***New and mended standards and interpretations in issue effective in the year ended 30 June 2023.***

Title	Description	Effective date
IFRS 17 Insurance Contracts (issued in May 2017)	<p>The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.</p> <p><i>The Company does not issue insurance contracts.</i></p>	Effective for annual periods beginning on or after 1 st January 2023.



IAS 8- Accounting Policies, Errors, and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.	The amendments are effective for annual periods beginning on or after January 1, 2023.

The Directors have assessed the applicable standards and amendments. Based on their assessment of the impact of the application of the above they do not expect that there will be a significant impact on the Company's financial statements.



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

**ii) New and amended standards and interpretations in issue but not yet effective in
the year ended 30 June 2023.**

Title	Description	Effective date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)	The amendments, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.



Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 8- Accounting Policies, Errors and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

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.

III. Early adoption of standards

The Company did not early – adopt any new or amended standards in year 2022/2023.



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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) **Revenue Recognition**

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

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

b) **Property plant and Equipment**

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

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

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



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

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

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

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

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

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

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

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

d) Intangible Assets

Intangible assets comprise the purchased computer software licenses which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year they are available for use, usually over three years.



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

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

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

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

f) **Inventories**

Stocks of alcohol, yeast, Co2 and all company products are stated at the lower of production cost and net realizable value. The costs of inventories comprise of purchase price, import duties, transportation and handling charge and it is determined on the moving average price method.

g) **Trade and other receivables**

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

h) **Taxation**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered or paid to the tax authorities. The tax rates and tax laws used to compute the taxable amount are those that are enacted, at the reporting date in Kenya. Taxation is provided on the basis.

of the results for the year as shown in the financial statements, adjusted with the tax legislation. The 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. 6,387,235,414 (2021/2022 Kshs. 6,031,224,846). Taxation on interest income as separate sources of income have been provided at 30% while taxation on rental income is at 10% based on the rental income earned for occupation of company houses by employees/staff.

i) **Deferred tax**

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



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

j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, short term deposits on call and high liquidity investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and various commercial banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

k) Borrowings

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

l) Trade and other payables

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

m) Retirement Benefits Obligations

The Company operates a defined contribution pension scheme for non-Unionisable staff. The staff retirement Benefit Fund was established on 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".

In accordance with the requirements of the Retirement Benefit Act 1997, the conversion approval by the Retirement Benefit Authority was granted on 30, June 2011 and the Trustee deed, Funds Management agreement, Investment policy agreement has been complied with. The accounts for 2022 have been audited and submitted to the Retirement Benefit Authority. The scheme had a total of 102 members composed of 85 active members and 17 deferred members. During the year, 8 members left the scheme. The scheme funds are managed independently of the Company's assets by ICEA Lion Life Assurance while the scheme administrator is Minet Insurance Company.



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

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 20.0% of the basic salary. The Company's contribution to the scheme is charged to the income statement in the year to which they relate.

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

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

n) **Contract Gratuity**

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

o) **Bonus Scheme**

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

p) **Provision for staff leave**

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

q) **Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. The current ruling exchange rate against the US\$ was Kshs.140.6093 (2021/2022 Kshs. 106.5224) as at the reporting date.



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

r) **Budget Information**

The Company original budget for FY 2022-2023 was approved by the Board of Directors and subsequently approved by the National Treasury in compliance with the Section 11 of the State Corporations Act, Cap 446 and section 4 Part (3), of the legal notice No. 93 on state corporations (performance contracting) regulation 2004. The Company did not have any additional appropriations and The budget was implemented as approved during the financial year.

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

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on Page on page 41 of these financial statements.

s) **Comparative figures**

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

t) **Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2023.

u) **Assets held for sale**

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



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

v) **Leases**

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

w) **Company as a lessor**

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

x) **Company as a Lessee**

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

y) **Borrowing Costs**

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

z) **Related Parties**

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

aa. **Research and Development expenditure**

Expenditure on research and expenditure is recognized 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 recognized 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.



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

- The ability to use or sell intangible assets.
- 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 recognized 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 recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

bb. **Financial Instruments**

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

cc. **Financial Assets**

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

dd. **Financial Assets at fair value through profit or loss**

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

ee. **Loans and receivables**

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

ff. **Held to maturity.**

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold maturity. Where a sale occurs other than an insignificant



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

amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

gg. Available for sale financial assets

This category represents financial assets that are not.

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

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

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

hh. **Impairment**

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



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

ii. **Restructuring and rationalization provisions**

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

jj. **Dividends**

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

kk. **Provisions**

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

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

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

Estimates and assumptions.

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



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

to market changes or circumstances arising beyond the control of the Entity.
Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

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

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

CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2022-2023	2021-2022
<u>6. SALES/ TURNOVER</u>		
Spirit Sales	1,819,129,814	1,579,561,728
Carbon Dioxide Sales	1,929,381	4,451,323
Yeast Sales	99,683,110	99,755,628
	1,920,742,305	1,683,768,679
<u>7. COST OF SALES</u>	2022-2023	2021-2022
Materials, Energy and Packing	1,775,865,997	1,054,044,833
Direct Salaries, wages and benefits	262,109,803	263,403,475
Plant Maintenance and other Factory overheads	97,669,160	86,890,332
Excise Duty	37,466,413	24,552,275
	2,173,111,373	1,428,890,914
<u>8. GAINS / (LOSS) ON DISPOSAL OF NON FINANCIAL ASSETS</u>	2022-2023	2021-2022
Disposal of Motor Vehicles	0	925,300
	0	925,300
<u>9. OTHER INCOME</u>	2022-2023	2021-2022
Rent paid by employees	6,534,814	6,575,857
Miscellaneous Income	10,632,502	17,164,525
Other Income	599,291	735,489
Finance Income	17,766,607	24,475,871
<u>10. FINANCE INCOME</u>	2022-2023	2021-2022
Interest on fixed deposits	19,246,211	46,697,397
	19,246,211	46,697,397



NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. ADMINSTRATIVE EXPENSES	2022-2023	2021-2022
Staff Costs	112,332,773	112,887,203
Audit Fees	780,000	780,000
Computer Expenses	8,020,579	6,331,140
Donations	484,000	673,450
Subscriptions and Newsletter	60,835	502,000
Guest House Expenses	-126,488	613,438
Legal fees	2,430,435	3,675,394
Management Fees	0	16,666,666
Office Expenses	3,473,288	2,623,138
Motor Vehicle running Expenses	16,119,560	11,582,472
Postage, telegrams and telephone	2,125,694	2,231,913
Printing and stationery	4,346,918	3,054,892
Travelling and Accommodation	15,368,930	11,402,681
Marketing and Nairobi office expenses	13,158,602	13,091,249
Consultancy and performance contracting activities	496,120	247,685
Productivity Improvement	127,500	0
Security Hire	8,620,500	8,402,830
Insurance and Licenses	23,685,047	15,495,735
Rent	2,248,920	2,240,129
Repairs and renewals (Housing)	585,848	45,990
Recruitment expenses	63,000	287,346
Board and Committee Sitting Allowances	2,834,343	6,899,370
Bank Charges	627,138	750,428
Tax Penalties	7,543,354	0
Income Tax Expense Rental Income	599,015	2,121,893
Over / Under Provision for Corparation tax	(4,475,510)	
Consultancy and professional services	-	750,000
	221,530,401	223,357,042



NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. (B). STAFF COSTS	2022-2023	2021-2022
Salary and allowances for Permanent employees	294,558,708	292,888,057
Wages for Casual staff	10,348,116	10,590,376
Employer's Contribution to the NSSF	1,740,224	539,200
Medical Insurance Schemes	20,955,491	19,707,507
Employer Contributions to Pension Scheme	12,386,522	9,633,350
Leave pay and Gratuity	4,022,099	13,672,620
Other Staff Welfare costs	30,431,416	29,259,569
	374,442,576	376,290,678
Direct Salaries ,wages and benefits (Note 9)	262,109,803	263,403,475
Staff Costs (Note 10)	112,332,773	112,887,203
	374,442,576	376,290,678
	2022-2023	2021-2022
The average number of Employees at the end of the year was:		
Permanent Employees - Management	92	94
Permanent Employees - Union staff	125	126
Temporary and Contract Employees	5	5
Total	222	225

Staff Costs are classified on the ratio of 70% for direct salaries, wages, and benefits under Note 7 and 30% for indirect salaries, wages and benefits under administrative costs Note 11.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. SELLING AND DISTRIBUTION EXPENSES	2022-2023	2021-2022
Vehicle Distribution Costs	26,378	940,266
Distribution Staff Costs	6,693,935	4,787,946
	6,720,314	5,728,212
13. FINANCE COST	2022-2023	2021-2022
Exchange Loss / (Gains) Operations	(1,334)	345,559
Interest on loans	327,349,981	306,712,978
	327,348,647	307,058,537
14. INCOME TAX EXPENSE / (CREDIT)		
a) Current taxation	2022-2023	2021-2022
Current Taxation based on Profit from Separate sources on income at 30%	7,495,478	7,172,362
Previous Year Taxation		
Current tax prior year under / (over provision)		
Total	7,495,478	7,172,362



AGRO CHEMICAL AND FOOD COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2023

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

COST / VALUATION	Leasehold Land Kshs.	Building, Housing & Factory Kshs.	Plant and Machinery Kshs.	Wet Yeast Coolers	Capital Work in Progress Kshs.	Motor Vehicles Kshs.	Computers and Accessories	Furniture and Equipment Kshs.	Total Kshs.
COMPRISING									
As at 1st July 2022	62,000,000	441,195,999	1,996,388,748	2,965,000	170,927,597	43,030,016	7,558,731	4,050,767	2,728,116,858
On Revaluation									-
Revalued Cost	62,000,000	441,195,999	1,996,388,748	2,965,000	170,927,597	43,030,016	7,558,731	4,050,767	2,728,116,858
Additions			1,422,665		68,213,739	13,197,845	2,056,522	1,360,297	86,251,068
Transfers			19,038,212		(19,038,212)				(0)
On Disposal									-
As at 30TH June 2023	62,000,000	441,195,999	2,016,849,625	2,965,000	220,103,124	56,227,861	9,615,253	5,411,064	2,814,367,926
DEPRECIATION									
As at 1st July 2022	651,000	11,029,900	79,855,550	444,750	-	5,713,125	2,345,923	590,882	100,631,130
On Revaluation									-
On Disposal	651,000	11,029,900	79,855,550	444,750	-	5,713,125	2,345,923	590,882	100,631,130
Charge for the Period July 2022- June 2023	651,000	11,029,900	80,673,985	444,750	-	9,012,586	2,860,053	726,911	105,399,186
As at 30TH June 2023	1,302,000	22,059,800	160,529,535	889,500	-	14,725,711	5,205,976	1,317,793	206,030,316
NET BOOK VALUE									
As at 30TH June 2023	60,698,000	419,136,199	1,856,320,090	2,075,500	220,103,124	41,502,150	4,409,277	4,093,271	2,608,337,610
As at 30th June 2022	61,349,000	430,166,099	1,916,533,198	2,520,250	170,927,597	37,316,891	5,212,808	3,459,885	2,627,485,728



AGRO CHEMICAL AND FOOD COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2022

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

COST / VALUATION	Leasehold Land Kshs.	Building, Housing & Factory Kshs.	Plant and Machinery Kshs.	Wet Yeast Coolers	Capital Work in Progress Kshs.	Motor Vehicles Kshs.	Computers and Accessories	Furniture and Equipment Kshs.	Total Kshs.
COMPRISING									
As at 1st July 2021	56,500,000	440,815,162	2,111,202,504	4,200,000	64,689,638	65,022,295	15,068,076	10,469,340	2,767,967,015
On Revaluation	5,500,000	380,837	(117,217,505)	(1,235,000)		(24,667,278)	(9,265,076)	(6,753,240)	(153,257,262)
Revalued Cost	62,000,000	441,195,999	1,993,984,999	2,965,000	64,689,638	40,355,017	5,803,000	3,716,100	2,614,709,753
Additions			2,403,749		106,237,959	2,674,999	1,855,731	334,667	113,507,105
Transfers									-
On Disposal							(100,000)		(100,000)
As at 30th June 2022	62,000,000	441,195,999	1,996,388,748	2,965,000	170,927,597	43,030,016	7,558,731	4,050,767	2,728,116,858
DEPRECIATION									
As at 1st July 2021	6,547,550	54,064,801	415,528,226			36,438,037	9,061,901	5,219,815	526,860,330
On Revaluation	(6,547,550)	(54,064,801)	(415,528,226)			(36,438,037)	(9,061,901)	(5,219,815)	(526,860,330)
On Disposal						0		(0)	(0)
Charge for the Period July 2021- June 2022	651,000	11,029,900	79,855,550	444,750		5,713,125	2,345,923	590,882	100,631,130
As at 30th June 2022	651,000	11,029,900	79,855,550	444,750	-	5,713,125	2,345,923	590,882	100,631,130
NET BOOK VALUE									
As at 30th June 2022	61,349,000	430,166,099	1,916,533,198	2,520,250	170,927,597	37,316,891	5,212,808	3,459,885	2,627,485,728
As at 30th June 2021	49,952,450	386,750,361	1,695,674,278	4,200,000	64,689,638	28,584,258	6,006,175	5,249,525	2,241,106,684



NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. INTANGIBLE ASSETS		
COST	2022-2023	2021-2022
As at July 1, 2022	16,413,001	30,589,608
Additions	-	-
Disposals		
On revaluation	-	(14,176,607)
As at June 30, 2023	16,413,001	16,413,001
AMORTISATION		
As at July 1, 2022	4,103,250	30,196,316
Charge for the year	4,103,250	4,103,250
ON REVALUATION	-	(30,196,316)
Disposals		
Impairment loss		
As at June 30, 2023	8,206,500	4,103,250
NET BOOK VALUE		
As at June 30, 2023	8,206,500	12,309,750
17. INVENTORIES AND WORK IN PROGRESS		
	2022-2023	2021-2022
Raw materials and spares	190,542,802	164,082,647
Finished Goods	57,429,096	23,008,633
Work In Progress	5,149,068	3,703,998
	253,120,966	190,795,277
18. TRADE AND OTHER RECEIVABLES		
	2022-2023	2021-2022
Trade Debtors	368,407,423	579,008,276
Pre-payments	13,493,670	16,787,572
Creditors with debit Balances	73,879,124	82,400,571
Other debtors	249,383,522	211,518,192
Total	705,163,739	889,714,611
Provision for Bad and Doubtful debts	(66,188,541)	(66,188,541)
	638,975,198	823,526,070



NOTES TO THE FINANCIAL STATEMENTS (Continued)

18.(a) TRADE AND OTHER RECEIVABLES	2022-2023	2021-2022
Trade receivables (note 18(b))	368,407,423	579,008,276
Deposits and prepayments	13,493,670	16,787,572
Creditors with debit Balances	73,879,124	82,400,571
Staff receivables (note 18 (c))	16,644,611	15,556,577
Other receivables	232,738,910	195,961,614
Gross trade and other receivables	705,163,739	889,714,611
Other: Provision for bad and doubtful receivable	(66,188,541)	(66,188,541)
Net trade and other receivables	638,975,198	823,526,070

Provision for bad and doubtful debts relate to specific provisions made between the years 2008/2009 and write backs made composed of Kshs. 62,508,649 for trade receivables and Kshs. 3,679,892 for staff debtors who left company services.

18. (b)TRADE RECEIVABLES	2022-2023	2021-2022
Gross trade receivables	368,407,423	579,008,276
Debtors with Credit Balances	(240,216,016)	(200,400,681)
	128,191,408	378,607,595

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

Less than 30 days	66,174,989	294,585,488
Between 30 and 60 days	(142,630,974)	18,942,161
Between 61 and 90 days	(165,587,693)	(24,004,002)
Between 91 and 120 days	118,046,503	14,197,548
Over 120 days	252,188,583	74,886,400
	128,191,408	378,607,595

18: (c)STAFF RECEIVABLES	2022-2023	2021-2022
Gross staff loans and advances	16,644,611	15,556,577
Provision for impairment loss		
	16,644,611	15,556,577
Less: Amounts due within one year	16,644,611	15,556,577
Amounts due after one year	0	0



NOTES TO THE FINANCIAL STATEMENTS (Continued)

19.SHORT TERM DEPOSITS	2022-2023	2021-2022
National Bank of Kenya	214,440,307	592,625,500
Kenya Commercial Bank	45,000,000	65,000,000
	259,440,307	657,625,500
The average effective interest rate on the short term deposits as at June 30,2023 was 6% 2022 was 6.5%		
20. CASH AND BANK BALANCES	2022-2023	2021-2022
Cash at Bank	53,112,153	134,225,990
Cash in Hand	799,805	550,445
	53,911,958	134,776,436



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Financial Institution	Account Number	2022-2023	2021-2022
a) Current Account			
National Bank Current Account Kisumu	01020000782601	36,236,231	100,619,522
Absa Current Account - Kisumu	1009560	1,417,544	18,527,044
National Bank Current Account Harambee Avenue	1020000782600	1,533,135	1,086,939
Kenya Commercial Bank School Account- Muhoroni	1104055325	644,104	7,074,293
Kenya Commercial Bank -Muhoroni	1104043084	6,396,457	1,733,293
KCB JUNIOR SECONDARY ACCOUNT - MUHORONI	1312149833	416,667	
Sub Total		46,644,139	129,041,091
b) On Call Deposits			
		331,363	204,232,207
Sub Total		331,363	204,232,207
c) Fixed Deposits Accounts			
National Bank of Kenya		214,440,307	592,625,500
K.C.B FIXED DEPOSIT		25,000,000	50,000,000
KCB SCHOOL FIXED DEPOSIT		20,000,000	15,000,000
Sub Total		259,440,307	657,625,500
d) Foreign Currency Account (US\$)			
Nbk US Dollar Account- Harambee Avenue	0200007826500	3,658,849	3,658,849
Sub Total		3,658,849	3,658,849
e) Savings Account			
National Bank of Kenya Savings Account Kisumu	1241000782600	2,809,165	1,526,050
Sub Total		2,809,165	1,526,050
f) Others- Cash in Hand			
Petty cash - Nairobi Office		199,999	99,437
Petty Cash Muhoroni		407,504	450,118
Petty Cash School		192,302	890
Sub Total		799,805	550,445

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21. ORDINARY SHARE CAPITAL

	2022-2023	2021-2022
Authorized 3,750,000 Ordinary shares Of Kshs.20/=	75,000,000	75,000,000
Issued and fully paid 3,000,000 Ordinary shares of Kshs.20/=	60,000,000	60,000,000



NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. REVALUATION /CAPITAL RESERVES

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 the retained earnings. Revaluation reserve is not distributable.

23. RETAINED EARNINGS/ACCUMULATED DEFICIT

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

24. TRADE AND OTHER PAYABLES		2022-2023	2021-2022
Trade Payables		118,473,635	78,499,466
Debtors with credit Balances		240,216,016	200,400,681
Other Payables		236,710,610	370,099,105
		595,400,261	648,999,252
25. PROVISION		2022-2023	2021-2022
Balance as at the beginning for staff Leave		16,232,307	20,372,903
Balance as at the beginning for Service Gratuity		6,495,404	5,839,582
Provision for staff Leave at the beginning of the year		8,860,543	16,232,307
Provision for Service Gratuity at the beginning of the year		2,163,831	2,833,431
Staff Leave paid during the year		(16,232,307)	(20,372,903)
Service Gratuity paid during the year		(329,126)	(2,177,609)
		17,190,652	22,727,711
26. BORROWINGS		2022-2023	2021-2022
Paris Club Rescheduled loan	Interest Rate 7%	2,941,884,000	2,941,884,000
Accrued interest on Paris Club Loan		6,575,110,665	6,369,178,806
Interest on GOK paid Loan	12.20% : 2020/21 12.08%	1,048,274,286	926,855,805
		10,565,268,951	10,237,918,611

The Company has an outstanding loan of Kshs. 10,565,268,592 with the Government of Kenya comprising of the principal Paris club loan of Kshs. 2,941,884.000 and interest thereon of Kshs. 6,575,110,665 charged at 7%.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

The second loan is the GOK paid loan where the Company has already paid the principal. The balance of Kshs. 1,048,274,286 is Interest charged on the balance interest at the average ruling lending rate during the year. The interest rate for the current year is 13.1% (2021/2022 12.21%)

The loans have been classified as current liabilities because they are due, and the Government of Kenya can recall the loan within the 12 months of trading.

The Company "does not have a conditional right to defer settlement of the liability for at least twelve months." Further to this, for an entity to classify a liability as non-current, the period of the repayment of the liability should be specific and backed by a legal document, say a contract of borrowing which in this case is lacking.

26. (B) BORROWINGS MOVEMENT	2022-2023	2021-2022
Balance at beginning of the year	10,237,918,611	9,931,205,633
Interest For the period	327,349,981	306,712,978
Repayment of Loan	0	0
Balance at the end of the year	10,565,268,592	10,237,918,611
Less : Amounts due within one year (Current year portion)	10,565,268,592	10,237,918,611
Amounts due after one year (Non-Current year portion)	0	0
27. TAX PAYABLE	2022-2023	2021-2022
Tax Brought Forward	12,282,513	15,525,770
Income tax charge	7,495,478	7,172,362
Tax Paid	(7,806,956)	(10,415,619)
Over / Under Provision for Corporation tax	(4,475,510)	
	7,495,525	12,282,513
28. CAPITAL COMMITMENTS	2022-2023	2021-2022
Authorized and Contracted	75,692,000	56,213,000
Authorized but not Contracted	14,343,000	9,832,000
TOTAL	90,035,000	66,045,000

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. NOTES TO THE STATEMENT OF CASHFLOWS

	NOTES	2023 KSHS.	2022 KSHS.
a) Reconciliation of operating profit/(loss) to cash generated from/ (used in) operations			
Operating Profit/(Loss)		(880,458,047)	(313,901,838)
Adjustment for items not involving movement of funds:			
Interest on Loans	26 (B)	327,349,982	306,712,978
Depreciation	15(A)	105,399,186	100,631,130
Amortization	16	4,103,250	4,103,250
Profit on Disposal of property Plant and Equipment	8	-	(925,300)
Tax Charged Current year	14		
Net Operating Profit before changes in working capital		(443,605,629)	96,620,220
changes in working capital:			
Increase/ (Decrease) in working Capital			
Increase in inventories		(62,325,689)	70,187,538
Increase in receivables		184,550,873	3,574,227
Increase in payables		(53,598,991)	83,624,209
Staff Leave payable current year		8,860,543	16,232,307
Over provision of Income tax last period		(4,475,510)	
Staff Leave paid		(16,232,307)	(20,372,903)
Gratuity Paid		(329,126)	(2,177,609)
Gratuity Payable Current year		2,163,831	2,833,431
Taxation Current year			-
Tax Payable			
Net Cash generated / (used in) operations		(384,992,005)	250,521,421
b) Analysis of changes in Loans			
Balance as at the beginning of the year		10,237,918,611	9,931,205,633
Receipts during the year		-	-
Repayments during the year		-	-
Accrued Interest		327,349,981	306,712,978
Balance at the end of the year		10,565,268,592	10,237,918,611
c) Analysis of Cash and Cash Equivalent			
Short term deposits		259,440,307	657,625,500
Cash at Bank		53,112,153	134,225,990
Cash in Hand		799,805	550,445
Balance as at the end of the year		313,352,264	792,401,936



NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. CONTINGENT LIABILITIES		
	2022-2023	2021-2022
i) Bank Guarantees		
a) Kenya Airways	500,000	500,000
b) KEMSA	2,162,241	280,000
c) Customs Bond	144,000,000	144,000,000
d) Kenya Medical Research Institute	100,000	
	146,762,241	144,780,000
ii) Letters of credit	KSHS	KSHS
a) LC 099200840 US\$ 742,500(2022)	0	20,769,563
Sub Total	0	20,769,563
Total Guarantees	146,762,241	165,549,563
	2022-2023	2021-2022
a) Kenya Revenue Authority- Tax demand	634,644,435	634,644,435
	634,644,435	634,644,435

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

The tax demand of Kshs. 634,644,435 relating to withholding tax on interest of Government loan is currently being heard at the Alternative Dispute Resolution (ADR) at KRA. The Company is hopeful that the demand will be vacated.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. RELATED PARTY TRANSACTIONS a) Government of Kenya

a) The Government of Kenya owns 56% of the Company shareholding through its shareholders ADC 28% and KDC 28%. The Company also has an outstanding loan of Kshs.10,565,268,592 with the government of Kenya.

b) The Mehta International Limited

The Mehta International Limited owns 44% of the shareholding in ACFC and such a related party. The company provides management services to the company in line with the existing Management contract.

Other related parties Other related parties include

- i) Key Management
- ii) Board of Directors



NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. RELATED PARTY TRANSACTIONS		
Transactions with related parties	2022-2023	2021-2022
	Kshs	Kshs
i) Government of Kenya		
Government of Kenya Loan	10,565,268,951	10,237,918,611
	2022-2023	2021-2022
	Kshs	Kshs
ii) The Mehta Group Limited		
Management Fees	0	16,666,666
	2022-2023	2021-2022
	Kshs	Kshs
Key Management remuneration		
Directors	2,834,343	6,899,370
Resident Director and Chief executive	2,344,495	1,459,065
Key Management remuneration	27,245,796	22,378,920
	32,424,634	30,737,355
Due from related parties		
Due from Government of Kenya	NIL	NIL
Due from The Mehta Group	NIL	NIL
	NIL	NIL
Total Due	NIL	NIL
	2022-2023	2021-2022
	Kshs	Kshs
Due to related parties		
Due to Government of Kenya	10,565,268,951	10,237,918,611
Due to The Mehta Group	NIL	NIL
Due to senior management staff	NIL	NIL
Total Due	10,565,268,951	10,237,918,611

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT POLICIES

The company activities expose it to a variety of financial risks. These involve the analysis, evaluation, acceptance, and management of some degree of risk or combination of risks. Taking risks is core to the business and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance. The Company's risk management policies are designed to identify and analyze these risks, set appropriate risk limits and controls, and to monitor the risks and at the same time ensure adherence to laid down limits. This is achieved by means of a reliable up-to-date information system.

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

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

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

a. Credit risk

Due to the nature of the Company's operation, it is exposed to credit risk which is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to pay amounts in full when due for goods sold to customers and investments in short term 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 on trade receivables in terms of the sale of yeast to some customers on credit and who are to pay after a period defined by the management.

The management assess the credit quality of each customer, considering its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

The carrying amount of financial assets recorded in the financial statements representing the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows.

Credit Risk	Fully Performing	Past due	Impaired	Total
	Kshs	Kshs	Kshs	Kshs
As at June 30, 2023				
Cash and cash equivalents	313,352,264	252,188,583		565,540,847
Trade receivables	128,191,408			128,191,408
Total	441,543,672	252,188,583	0	693,732,255
As at June 30, 2022				
Cash and cash equivalents	791,851,490	74,886,400		866,737,891
Trade receivables	378,607,595			378,607,595
Total	1,170,459,086	74,886,400	0	1,245,345,486

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Company has a significant concentration of credit risk on amounts due from 60 days.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated. The bank balances are fully performing.

b. Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium, and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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Liquidity Risk	Less than 1 Month	Between 1 to 3 months	Over 3 months	Total
As at 30th June 2023	Kshs	Kshs	Kshs	Kshs
Trade Payables	459,132,653			459,132,653
Current portion of borrowings	10,565,268,951			10,565,268,951
Provisions	17,190,652			17,190,652
Tax Payable	7,495,478			7,495,478
Total	11,049,087,734	0	0	11,049,087,734
As at 30th June 2022	Kshs	Kshs	Kshs	Kshs
Trade Payables	648,999,300			648,999,300
Current portion of borrowings	10,237,918,611			10,237,918,611
Provisions	22,727,711			22,727,711
Tax Payable	7,172,362			7,172,362
				0
	10,916,817,983	0	0	10,916,817,983

c) **Market Risk**

i) **Foreign currency Risk**

The Company has transactional currency exposures. Such exposure arises through purchases of goods and services that are made in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

Foreign Currency Risk	Kshs	Other currencies	Total
	Kshs	Kshs	Kshs
As at 30 June 2023			
Financial assets (investments, cash , debtors)	3,658,849		3,658,849
Liabilities			
Trade and other payables			
Borrowings			
Net foreign currency asset / (liability)	3,658,849	0	3,658,849
As at 30 June 2022			
Financial assets (investments, cash , debtors)	3,658,849		3,658,849
Liabilities			
Trade and other payables			
Borrowings			
Net foreign currency asset / (liability)	3,658,849	0	3,658,849



NOTES TO THE FINANCIAL STATEMENTS (Continued)

The entity manages foreign exchange risk from future commercial transactions and recognized assets and liabilities by projecting expected sales proceeds and matching the same with expected payments.

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

ii) Foreign Currency Sensitivity analysis

Foreign Currency sensitivity	Change of Currency rate	Effect on profit before tax	Effect on equity
2023	Kshs	Kshs	Kshs
US Dollar	10%	450,421	
2023			

As at 30th June 2022 an increase /decrease of 10 percentage points would have resulted in an increase/decrease in pre-tax profits of kshs. 450,421 (2021/2022 Kshs. 517,914). This risk is attributed to the Bank deposits of US\$. 32,033.50 held in foreign currency.

iii) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavored to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The Company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 accepted standards of corporate behavior.

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

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

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

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

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 maximizing 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 26 as well as retained earnings and issued capital as presented on note 21. Consistent with others in the industry, the company monitors capital on the 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital Risk Management

	2022-2023	2021-2022
	Kshs	Kshs
Revaluation/ Capital reserve	2,389,788,369	2,389,788,369
Retained earnings	(9,813,151,220)	(8,925,197,695)
Total Funds	(7,423,362,850)	(6,535,409,325)
Total borrowings	10,565,268,951	10,237,918,611
Less cash and bank balances	313,352,264	792,401,936
Net debt / (excess cash and cash equivalents)	10,251,916,686	9,445,516,675
Gearing	-72%	-69%

33 INCORPORATION

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

34. EVENTS AFTER THE REPORTING PERIOD

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

35. CURRENCY

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

36. APPENDICES

Appendix 1: IMPLEMENTATION STATUS OF AUDITOR GENERAL PRIOR YEAR RECOMENDATIONS

Reference Number on the external audit report.	ISSUE/OBSERVATIONS FROM THE AUDITOR	MANAGEMENT COMMENTS	STATUS (Resolved / Not Resolved)	
1.	Lack of audit trail	<p><i>Some ledgers entries did not contain payee and cheque numbers because in some cases goods were issued from our inventory control account and charged to the respective GL expense account.</i></p> <p><i>In this case a goods issue note number is generated by the SAP software and not the payee. There is no provision for picking the Payee or Cheque number.</i></p> <p><i>However, the cheque numbers don't appear since the system picks the system generated numbers in the ledger.</i></p> <p>The company's ERP system has been amended to include required details</p>	Closed subject to confirmation by OAG.	
2.	Unsupported cost of sales	<p><i>ACFC uses an SAP software where all the inputs are captured and the total production cost per liter is determined. A sampled bill of material for production of Extra Neutral Spirit was provided.</i></p> <p><i>When making a production order materials are drawn from the raw materials inventory stores to work in progress . After production, this cost is debited to work in progress account and later debited to the finished</i></p>	Closed subject to confirmation by OAG.	



		<p><i>goods stocks account at storage.</i></p> <p><i>At the time of sale, the cost of sales account will be debited to the ENA cost of sales account and this informs the cost of Kshs. 922,801,269.</i></p> <p>Detailed costing provided for all company products and tallies with financial statements/ledgers.</p>		
3.	Receivables	Supporting ledger details provided to auditors for review.	Closed subject to confirmation by OAG.	
3.1	a) Unsupported receivables			
3.2	b) Long outstanding receivables.	<p>Debtors worth Kshs. 68,227,888 are long outstanding & in court. Court case against African spirits limited has been ruled in favour of the company (Ksh. 61,771.910)</p> <p>Other debts above 60 days being pursued by the company.</p>	Pending determination and closure by courts.	
4.	Unconfirmed loan balances Ksh. 10,237,918,611	<p>Loan balance confirmation by National treasury provided to auditors.</p> <p>Loan not repaid due to cashflow issues and is being addressed through privatization of the company.</p>	Pending closure as we await privatization of the company.	
5.	Unreconciled variances between general ledger and financial statement	All schedules from the general ledger provided which tallies with financial statements	Closed subject to confirmation by OAG.	
6.	Unreconciled variances in inventory balances	<p>The variance of Ksh. 1,532,288 mainly due to use of dipping methods to ascertain stock levels.</p> <p>These losses arise due to handling of liquid stocks like fuel and molasses. The loss is absorbed by a charge of</p>	Closed subject to confirmation by OAG.	



		Ksh. 5 per litre on petroleum products. The company has budgeted for weighing hopper equipment to improve on the accuracy of stocks in 2023/24		
7.	Unsupported trade and other payables	Schedules for advances from debtors, accruals, excise duty and goods received and not invoiced provided to the auditors	Closed subject to confirmation by OAG.	
Other matter 1	Budget and budgetary controls.	Budget deficit mainly due to low production and sales arising from shortage of molasses. Under expenditure is mainly because of the above, as the company mainly relies on internally generated funds.	Closed subject to confirmation by OAG.	
2	Uncertainty regarding going concern.	Mainly due to GOK loan of Kshs10,237,918,611 awaiting address through privatization of the company.	Pending closure as we await privatization of ACFC.	
Basis of Conclusion 1	Incomplete Bio-digester (CSTR)	Performance bond has been availed to the auditors. Contract extensions were due to factors beyond the control of the company and contractor. Bio-digester is now complete and commissioned.	Closed subject to confirmation by OAG.	
2	Noncompliance with one third basic salary	Revised list of deductions provided to the auditors hence list of defaulters reduced. Company to gradually achieve due to other earlier salary engagements from financial institutions including new taxes and levies.	Pending closure.	