

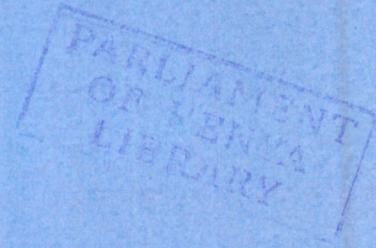
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



THE NATIONAL ASSEMBLY PAPERS LAID	
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REPORT

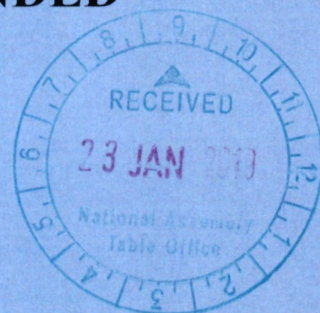
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
AGRO-CHEMICAL AND FOOD
COMPANY LIMITED

FOR THE YEAR ENDED
30 JUNE 2018







**AGRO-CHEMICAL AND FOOD
COMPANY LIMITED**

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2018

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

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COMPANY INFORMATION

a) Background Information

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

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

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

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

b) Principal Activities

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

COMPANY INFORMATION (Continued)

a) **Board of Directors**

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

ORGANIZATION	NAME
Agricultural Development Corporation	Mr. Richard K. Aiyabei –Chairman (Appointed on 27.01.2016).
Agricultural Development Corporation	Dr. Winnie Macharia (Appointed on 02.10.2017).
	Mr. Maxwell Mugonyi (Replaced on 02.10.2017)
Industrial and Commercial Development Corporation	Mrs. Faith Diana Nene (Appointed on 30.11.2017).
	Mr. Joseph C. Mwaura (Replaced on 30.11.2017).
Industrial and Commercial Development Corporation	Mr. Dismas J.O. Oyieko, HSC (Appointed on 01.07.2011).
The Mehta International Limited	Mr. Suresh C. Sharma (Appointed on 26.07.1994).
The Mehta International Limited	Mr.Nanalal P. Sheth, (Alternate to Mr. M.N. Mehta) (Appointed on 18.07.2009).
Ministry of Agriculture, Livestock Fisheries & Irrigation (State Department Crop Development)	P.S. (Alternate: Mr Abraham Barno) (Appointed on 14.07.2014).
The National Treasury	C.S. (Alternate: Mr. Paul Kiagu) (Appointed on 18.11.2015)
Resident Director & Chief Executive:	Mr. Ashok Agrawal

COMPANY INFORMATION (Continued)
Company Secretary:

Mr. Solomon O. Awino, CPS (Kenya)
P.O. Box 18-40107
MUHORONI, KENYA
ICPSK Member No.1739

b) **Registered Office**

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

c) **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

d) **Corporate Bankers:**

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

Barclays Bank of Kenya Limited
P.O. Box 831
KISUMU

Kenya Commercial Bank Limited
P.O. Box 113
MUHORONI

COMPANY INFORMATION (Continued)

e) **Independent Auditors:**

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

f) **Principal Legal Advisers:**

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

g) **Managing Agent:**

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

h) **Senior Executives:**

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



VISION AND MISSION STATEMENTS

OUR VISION

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

OUR MISSION

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



BOARD OF DIRECTORS AND SENIOR EXECUTIVES

BOARD OF DIRECTORS

FULL NAMES OF CHAIRMAN, CEO & BOARD OF DIRECTORS	DESIGNATION (e.g. CHAIRMAN, CEO, MEMBER)	DATE OF APPOINTMENT	ACADEMIC PROFESSIONAL QUALIFICATIONS	DATE OF BIRTH	EXPERIENCE (YEARS WITH ACFC)
MR. RICHARD K. AIYABEI	CHAIRMAN	27.01.2016	BSC, Agric, M.Sc. in Agronomy, Dip. Farm Engineering	1966	3
DR. MWINNIE MACHARIA	MEMBER	02.10.2017	MBA Strategic development, PHD BA	1968	1
MR. ASHOK AGRAWAL	CEO	01.11.2011	B.Tech. (Chem. Engineering)	1959	8
MRS. FAITH NENE	MEMBER	30.11.2017	BA, HMR, Masters HRM	1968	1
MR. DISMAS.J.O. OYIEKO	MEMBER	01.07.2011	B.Com (Accounting), MSc (Finance)	1959	8
MR. M.N. MEHTA	MEMBER	15.12.1982	Entrepreneur/Business Executive	1930	37
MR. SURESH .C. SHARMA	MEMBER	26.07.1994	B.Sc.A.N.S., F.R.S.C.(London), Chartered Chemist (London). Chartered Scientist(London). F.I.E. Chartered Engineer(India). M.Am Chem Soc (U.S.A)	1936	25
MR. NANALAL .P. SHETH	MEMBER	18.07.2009	Barrister of Law, Advocate	1927	10
MR. ABRAHAM BARNO	MEMBER	14.07.2014	B.Sc. Agric, MSc. (Agric Rural Dev.)	1959	4
MR. PAUL KIAGU	MEMBER	18.11.2015	B.A (Econs) M.sc (Econs)	1969	3

MANAGEMENT TEAM

NAME	POSTION AND QUALIFICATION	DATE OF BIRTH
1. ASHOK AGRAWAL	CHIEF EXECUTIVE OFFICER B. Tech. (Chem. Engineering)	26 th January 1959
2. OWITI EDWIN OWINO	FINANCIAL CONTROLLER (B.ED , CPA,K)	8 th August 1976
3. AWINO SOLOMON OKEYO	COMPANY SECRETARY (LLB, CPS)	25 th July 1971

BOARD OF DIRECTORS AND SENIOR EXECUTIVES (Continued)

DIRECTORS BIOGRAPHIES



Mr. Richard K. Aiyabei –Chairman

He was born in the year 1966 and was appointed to the Board on 27.01.2016. He is currently the Managing Director of Agricultural Development Corporation and is a holder of BSC, Agric, M.Sc. in Agronomy, Dip. Farm Engineering. He has three years working experience with ACFC.





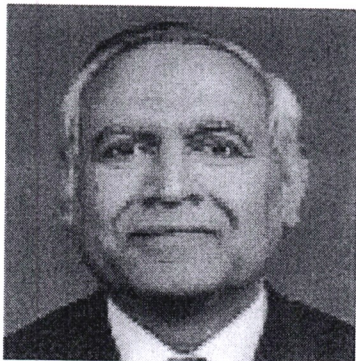
Dr. Winnie Macharia

She was born in the year 1968 and was appointed to the Board on 02.10.2017. She is currently a Technical officer at the Agricultural Development Corporation and is a holder of MBA, Strategic Management, PHD BA. She has one years working experience with ACFC.

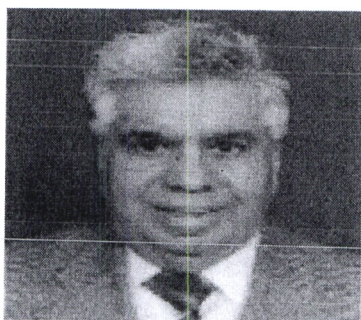


Mrs. Faith Diana Nene

She was born in the year 1968 and was appointed to the Board on 30.11.2017. She is currently the Human Resource and Administration manager at the Industrial and Commercial Development Corporation

BOARD OF DIRECTORS AND SENIOR EXECUTIVES (Continued)	
 <p>Mr. Dismas J.O. Oyieko, HSC</p>	<p>He was born in the year 1959 and was appointed to the Board on 01.07.2011. He is currently a Projects manager at the Industrial and Commercial Development Corporation and is a holder of B.Com (Accounting), MSc (Finance). He has Eight years working experience with ACFC.</p>
 <p>The National Treasury C.S.(Alternate: Mr. Paul Kiagu)</p>	<p>He was born in the year 1969 and was appointed to the Board on 18.11.2015. He is currently a working at The National Treasury and is a holder B.A (Econs) M.sc (Econs). He has three years working experience with ACFC.</p>
 <p>Mr. Suresh C. Sharma</p>	<p>He was born in the year 1936 and was appointed to the Board on 26.07.1994. He is currently a working as Regional Director at SCOUL and is a holder of B.Sc.A.N.S., F.R.S.C.(London), Chartered Chemist (London), Chartered Scientist(London), F.I.E. Chartered Engineer(India), M.Am Chem Soc (U.S.A). He has twenty five years working experience with ACFC.</p>

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



He was born in the year 1930 and was appointed to the Board on 18.07.2009. He is a Barrister of Law and has a Ten years working experience with ACFC.




Mr. M.N. Mehta


He was born in the year 1930 and was appointed to the Board on 15.12.1982. He has thirty seven years working experience with ACFC.




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

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

BOARD OF DIRECTORS AND SENIOR EXECUTIVES (Continued)	
 Mr. Ashok Agrawal Resident Director and Chief Executive	<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. He was born on 26th January 1959) and is a holder of B. Tech. (Chem. Engineering).</p>

 Mr. Edwin O. Owiti	<p>He is currently the Financial Controller. He was born in 1976 and is a holder of (B.ED , CPA,K)</p>
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BOARD OF DIRECTORS AND SENIOR EXECUTIVES (Continued)	
 Mr. Solomon Awino	He is currently The Company Secretary and he is a holder of (LLB, CPS) and a member of the ICPSK



CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30TH JUNE 2018



It is my pleasure to present the Annual Report and financial statements of ACFC for the year ended 30th June 2018.

SUMMARISED OPERATING RESULTS

The Company's operations mainly depend on the quantity of molasses supplied by sugar companies. The Company received 36,562 tons (2016/2017: 54,880 tons) of molasses against a budgeted quantity of 60,000 tons. During the year the Company experienced an acute shortage of Molasses and this affected the Company operations leading to the closure of the alcohol plant for about 192 days.

The Company produced 4.863 million (2016/2017: 11.124 million) litres of alcohol against budgeted quantity of 16.10 million litres. Active Dry Yeast (ADY) production was 67 tons (2016/2017: 271 tons) against a budget of 600 tons representing a decrease of 533 tons.

Wet Yeast production was 868 tons (2016/2017: 794 tons) against a budget of 1,000 tons representing a decrease of 132 tons. During the current year the Company produced 31,770 cartons (2016/2017: 22,763 cartons) of "Patriot" bottled spirits and 51 tons of Carbon dioxide.

The Company realized a turnover of Kshs. 615.925 million (2016/2017 Kshs. 1,335.516 million) against the budget of Kshs. 2,137,240 million.

CHAIRMAN'S REPORT (Continued)

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

FINANCIAL HIGHLIGHTS

PRODUCTION	2017-2018			2016-2017			2015-2016	
	BUDGET	ACTUAL	% ACTUAL BUDGET	BUDGET '000'	ACTUAL '000'	% Actual Budget	BUDGET	ACTUAL
Alcohol (Lts. 000)	16,100	4,863	30%	16,200	11,124	69%	15,550	16,560
Active Dry Yeast (Tons)	600	67	11%	800	271	34%	650	266
Wet Yeast (Tons)	1,000	868	87%	1,000	794	79%	1,000	782
Carbon Dioxide (Tons)	1,200	51	4%	2,500	149	6%	3,750	190
Compounded Spirit (Patriot) (Cartons)	120,000	31,770	26%	120,000	22,763	19%	300,000	15,045
SALES:								
Alcohol (Lts 000).	16,100	3,686	23%	16,200	12,197	75%	15,550	16,573
Active Dry Yeast(Tons)	600	92	15%	800	264	33%	650	277
Wet Yeast (Tons)	1,000	868	87%	1,000	794	79%	1,000	772
Carbon Dioxide (Tons)	1,200	51	4%	2,500	141	6%	3,750	192
Compounded Spirit (Patriot) (Cartons)	120,000	27,501	23%	120,000	21660	18%	300,000	15,045

FINANCIAL INDICATORS:								
Sales Turnover (Kshs.'000')	2,137,240	615,925	29%	2,176,100	1,335,516	61%	2,134,000	1,853,448
Other Income (Kshs. '000)	142,764	83,574	59%	67,500	432,851	657%	68,000	79,884
GROSS REVENUE (Kshs. '000')	2,280,004	699,499	31%	2,243,600	1,768,367	79%	2,202,000	1,933,332
Operating Profit/ (Loss) Before Interest (Kshs. '000')	309,414	(422,435)		367,566	364,797	102%	356,298	538,632
Interest on loans (Kshs. '000)	275,657	275,530	99%	283,631	263,368	93%	293,770	280,087
Net Profit (Loss) (Kshs. '000)	33,757	(697,966)		83,935	101,429	133%	62,598	258,545
Corporate tax 30%(Kshs. '000)		16,846			60,630			30,833
Net Profit (Loss) After Tax(Kshs. '000)		(714,812)		83,935	40,799	61%	62,598	227,711

Total sales turnover for the year under review was Kshs. 615.925 million compared to Kshs. 1,335.516 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. 699.499 million compared to Kshs. 1,768.367 million last year. The Company registered an operating loss before loan interest was Kshs. 422.435 million compared to a profit Kshs. 364.797 million in 2016/2017. After charging loan interest of Kshs. 275.758 million (2016/2017: 263.368 million) the Company registered an overall net loss of Kshs. 697.966 million compared to a net profit of kshs. 101.429 million in 2016/2017. After Charging Corporate tax of Kshs. 16.846 million the Company registered a loss of Kshs. 714.812 million 2016/2017 profit of Kshs. 40.799 million.

CHAIRMAN'S REPORT (Continued)

CHALLENGES

During the current financial year, the Company could not achieve its budgeted production and sale targets. This was mainly due to the closure of the alcohol plant for 192 days as a result of lack of molasses and lack of storage space for alcohol as a result of cheap alcohol in the market. The price of molasses also increased to a very high price hence increasing our cost of production.

ACKNOWLEDGEMENT

May I acknowledge the commitment and dedication of our employees who have continued to perform their duties with skill, loyalty and team spirit to enable the Company to achieve such a milestone.

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

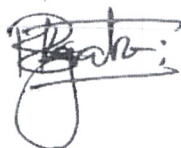
PROSPECTS

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

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

CONCLUSION

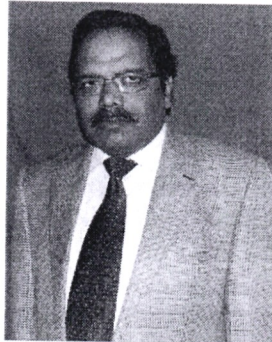
My sincere appreciation goes to all my colleagues on the Board for their tireless devotion and valued guidance. I look forward to similar enthusiastic and co-operation in the future. I also wish to extend my sincere appreciation to the management and the staff of ACFC for their efforts and feel confident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



MR. RICHARD K. AIYABEI
CHAIRMAN



REPORT OF THE RESIDENT DIRECTOR AND CHIEF EXECUTIVE



Mr. Ashok Agrawal

During the current financial year ended June 30, 2018, the Company was faced with acute shortage in molasses supply. The shortage of molasses led to an increase of molasses prices from Kshs. 3,000 per ton to an average of Kshs. 22,000 per ton. This led to the alcohol plant being closed for about 192 days leading to lower production of Alcohol, ADY, CO₂ and bottled spirits reduced sales and lower profitability.

During the year 2017/2018 the Company registered a net loss of Kshs. 729,929,893 due to shortage of molasses hence low production, closure of alcohol plant and high cost of production. The Company has continued to put in more efforts to alleviate this situation and ensure an improved supply of molasse. Two tanks were rehabilitated to increase the molasses storage capacity by 2,800 tons.

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

The Company has revised its current strategic plan for the year 2018/2019 to address the challenges faced during the last plan. Production and Sales Compound spirits have improved during the year. The Company has also introduced new product line like Ago Plus and Medi plus to improve the bottom line.

The Company is under privatization and various options have been recommended by the Privatization Commission. Privatization of the Company is key in bringing back the Company to profitability and a healthier balance sheet will therefore be realized.



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

ASHOK AGRAWAL
RESIDENT DIRECTOR
AND CHIEF EXECUTIVE



CORPORATE GOVERNANCE STATEMENT

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

Role and Responsibilities of Board of Directors

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

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

Board Composition:

The Board of ACFC is composed of nine directors representing the three shareholders vis, ADC, two directors, ICDC, two directors, IIC, three directors, representative of P.S, Ministry of Agriculture, Livestock and Fisheries (State Department of Agriculture) and representative of C.S., The National Treasury. Therefore, the Company Directors are not elected but are representatives of institutions by their respective offices.

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

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



Board Meetings:

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

Date of Meeting	Number of attendance
25.7.2017	5
31.10.2017	7
30.1.2018	8
27.4.2018	6
28.6.2018	6

Board Committees:

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

a) **Audit and Risk Committee**

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

b) **Staff and Finance Committee**

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



c) **Technical and Commercial Committee**

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

Conduct of Business and performance reporting:

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

Board Charter

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

Appointment and Removal of Directors

The Board of Directors are appointed by the respective shareholders.

Induction and Training of Directors

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

Code of conduct and Ethics

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



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



MANAGEMENT DISCUSSION AND ANALYSIS

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

I. OPERATIONAL PERFORMANCE

During the financial year ended June 30, 2018, the Company faced challenges because of lack of raw materials (Molasses), lack of storage space in the tank as a result of cheap alcohol in the market and increased price of molasse leading to high production costs. These factors affected the Company's operations,

a. Molasses Procurement

The Company's operations mainly depend on the quantity of molasses that we procure from the sugar companies. During the financial year 2017/2018, the Company procured 36,562 (2016/2017: 54,880) tons of molasses against a target of 60,000 tons. The shortfall of 25,438 tons meant the Company could not achieve its production targets.

b. Production

The Company produced 4.863 million litres of alcohol, 67 tons of ADY and 868 tons of Wet Yeast against the budget of 16.10 million litres of alcohol, 600 tons of ADY and 1,000 tons of Wet Yeast. The Company fell short of achieving the set production target for Alcohol, ADY and Wet Yeast mainly due closure of the alcohol plant for 192 days as a result of acute shortage of molasses and low sales due to cheap alcohol in the market.

c. Sales

The Company sold 3.68 million litres of alcohol, 92 tons of ADY and 868 tons of Wet Yeast against the budget of 16.10 million litres of alcohol, 600 tons of ADY and 1,000 tons of Wet Yeast.

II. FINANCIAL PERFORMANCE

During the year 2017/2018, the Company generated a turnover of Kshs. 615,924,689 (2016/2017 Kshs. 1,335,516,279). The operating loss before interest on loans was Kshs 422,435,446 (2016/2017: Kshs. 364,796,968). However after charging interest on loan of



Kshs. 275,530,591 (2016/2017: Kshs. 263,367,654), the Company registered a net loss of Kshs. 697,966,037 (2016/2017: profit of Kshs. 101,429,314). After charging corporate tax of kshs. 16,846,580 (2016/2017 Kshs. 60,629,970) the company registered a loss of Kshs. 714,812,617 (2016/2017 profit of kshs 40,799,345).

The loss for the year is as a result of reduced turnover due to lower production of Alcohol as a result of the closure of the Alcohol plant for about 192 days due to shortage of Molasses and lack storage space for finished goods due to high stocks.

III. PROJECTS OR INVESTMENTS

During the financial year 2017/2018, the Company implemented the projects aimed at improving the Company's profitability as per the approved budget and strategic plan. The Company also continued with the improvements in the Effluent treatment plant as part of its efforts to improve the environment.

IV. COMPLIANCE WITH STATUTORY REQUIREMENTS

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

V. CHALLENGES FACING THE COMPANY

The Company faces challenges in operations as enumerated below:

- Unstable supply of molasses
- Cheap alcohol in the spirit market
- Emerging competition from sugar factories entering the ethanol market
- Slow Privatization process
- Negative Share Capital/Equity
- High Cost of major inputs – Fuel Oil, Imported Chemicals and Molasses

VI. MATERIAL ARREARS IN STATUTORY AND OTHER FINANCIAL OBLIGATIONS

The Company has no material arrears in Statutory obligations and all obligations were remitted in time. However due to the above challenges the Company did not repay the GOK loan in the financial year and the loan balance as at the end of the year is Kshs. 9,072,862,152 as at June 30, 2018

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

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

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

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

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

DIRECTORS' REPORT

The Directors present their report and the statement of financial position, statement of changes in equity for the year ended 30th June 2018.

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

Principal Activities:

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

Results:

The results of the Company for the year ended June 30, 2018 are as set out on page 24. Below is a summary of the loss made during the year.

During the year 2017/2018, the Company produced 4.863 million litres of alcohol, 67 tons of Active Dry Yeast, 868 tons of Wet Yeast and realized a turnover of Ksh. 615,924,689 million (2016/2017: 1,335.516 million). The operating loss before interest on loans was Kshs 422,345,446 (2016/2017: profit of Kshs. 367,796,948). However after charging interest on loan of Kshs. 275,530,59 (2016/2017: Kshs. 263,367,654), the Company registered a net loss of Kshs. 697,966,037 (2016/2017: profit of Kshs. 101,429,314). After charging corporate tax of kshs. 16,846,580 (2016/2017 Kshs. 60,629,970) the company registered a loss of Kshs. 714,812,617 (2016/2017 profit of kshs 40,799,345).

Dividends:

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

Directors

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



Auditors:

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year ended June 30, 2018.

By order of the Board

SOLOMON AWINO OKEYO

Company Secretary

Date:

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

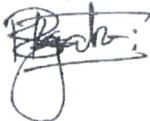
The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the of the Company for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management 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, 2018, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Company's financial statement were approved by the Board of Directors on September 27, 2018 and signed on its behalf by:



MR. RICHARD K. AIYABEI
CHAIRMAN

MR. DISMAS OYIEKO
DIRECTOR

REPUBLIC OF KENYA

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Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON AGRO-CHEMICAL AND FOOD COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

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 29 to 73, which comprise the statement of financial position as at 30 June 2018, 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, section 35 of the Public Audit Act, 2015 and the Companies 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 Agro-chemical and Food Company Limited as at 30 June, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

The statement of financial position for the year ended 30 June 2018 indicates that the cash and cash equivalents balance was Kshs.224,189,674. However, there were unrepresented cheques totalling Kshs.362,140 that had not been presented for payment for a period of six months and therefore were stale. Further, the bank confirmation certificate for National Bank account number 01020000782600 had an amount of Kshs.25,011,145 while the bank statement reflected a figure of Kshs.25,440,345 as at 30 June 2018 leading to an unreconciled variance of Kshs.429,200. In addition, there were unidentified direct bank deposits of Kshs.1,396,050 in the bank statements.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.224,189,674 could not be ascertained as at 30 June 2018.

Report of the Auditor-General on the Financial Statements of Agro-chemical and Food Company Limited for the year ended 30 June 2018

2. Inventories and Work in Progress

The statement of financial position for the year ended 30 June 2018 indicates that the inventories and work in progress balance was Kshs.326,171,435. However, a comparison of the stock quantities in valuation report used in the preparation of the financial statements and the actual physical stock count sheets revealed discrepancies of the stocks as shown below:

	Stock Count Sheets (Quantities)	Financial Statements Valuation Report (Quantities)	Variance (Quantities)	Unit Value (Kshs)	Total Value (Kshs)
Long-neck 250ml glass bottles type generic	226,374	274,939	(48,565)	13.90	(675,054)
Ropp metallic caps size 29mm	140,800	172,384	(31,584)	2.69	(84,961)
3ply brown corrugated printed colour carton	7,575	21,066	(13,491)	47.00	(634,077)
Polythene liners 620mm	36,833	38,574	(1,741)	16.13	(28,082)
500ml natural bottle with caps and plug	3,154	4,002	(848)	11.73	(9,947)
5ltr jerrican with caps and plug	1,625	2,794	(1,169)	44.05	(51,494)
Brown carton size 272x150x352mm	8,786	9,872	(1,086)	35.51	(38,564)
Carton - 10kg ADY	2,250	2,343	(93)	38.39	(3,570)
Jerrican - white plastic - printed furaha	1,044	1,081	(37)	315.00	(11,655)
Printed use by labels	20,000	56,639	(36,639)	0.65	(23,815)
Silicon deformer	23,800	24,290	(490)	566.25	(277,463)
Di-ammonium phosphate	9,225	9,825	(600)	110.31	(66,186)
Magnesium sulphate	1,400	1,728	(328)	34.97	(11,470)
Sodium chloride	20,300	20,900	(600)	17.24	(10,344)
Urea	17,800	19,100	(1,300)	43.16	(56,108)
Copper sulphate	50	61	(11)	348.05	(3,829)
Potato starch	3,275	3,425	(150)	140.01	(21,002)
Formalin	170	177	(7)	73.12	(512)
Zinc sulphate	150	160	(10)	85.00	(850)
Sodium carbonate	5,700	5,720	(20)	26.43	(529)
Maize starch	3,000	3,150	(150)	73.97	(11,096)
Flocculants	480	620	(140)	594.80	(83,272)
Nitric acid	3,885	3,963	(78)	59.55	(4,645)
Caustic soda pearls	2,175	2,625	(450)	89.49	(40,271)
Total					(2,148,794)

Report of the Auditor-General on the Financial Statements of Agro-chemical and Food Company Limited for the year ended 30 June 2018

Stock take records for molasses that had a value of Kshs.65,787,480 as at 30 June 2018 were not availed for audit review and items of chemicals valued at Kshs.5,440,148 and included in the valuation reports could not be traced to the stock take sheets provided for audit review.

Under the circumstances, the accuracy and completeness of the inventories and work in progress balance of Kshs.326,171,435 could not be ascertained as at 30 June 2018.

3. Receivables

The statement of financial position for the year ended 30 June 2018 indicates a receivables balance of Kshs.405,123,715. However, despite an increase in receivables from Kshs.313,281,903 as at 30 June 2017 to Kshs.405,123,715 as at 30 June 2018. The provision for bad and doubtful debts remained the same at Kshs.65,164,432. Further, an aged analysis of debtors as at 30 June 2018 was not availed for audit review. In addition, Note 18 to the financial statements indicates that trade debtors were Kshs.288,188,640. However, the schedule availed to support this amount had a total figure of Kshs.213,590,483 resulting into an unexplained variance of Kshs.74,598,156.

Consequently, the accuracy and completeness of the receivables balance of Kshs.405,123,715 could not be ascertained as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

Emphasis of Matters

1. Budget Performance

The comparison of budget against actual amounts is shown below:

Revenue	Budget	Actual	Variance	Variance
	(Kshs)	(Kshs)	(Kshs)	%
Income	2,280,004,000	699,499,423	1,580,504,577	69%
Cost of sales	1,474,547,000	797,900,079	676,646,921	46%
Gross Profit	805,457,000	(98,400,656)	903,857,656	112%
Expenses				
Administration expenses	360,346,000	215,813,550	144,532,450	40%
Depreciation	135,697,000	108,221,241	27,475,759	20%
Interest on loans	275,657,000	275,530,591	126,409	0%
Taxes	0	16,846,580	(16,846,580)	
Total Expenditure	771,700,000	616,411,962	155,288,038	21%
Surplus	33,757,000	(714,812,618)	748,569,618	2218%

The company's poor performance is attributed to lack of key raw materials. In the previous year there was a surplus on revaluation of assets of Kshs. 281,775,563. The decrease in sales does not match that of cost of production because of increasing purchase prices that the company cannot be able to transfer to its customers due to the market dynamics.

2. Material Uncertainty Related to Going Concern

The Company reported a net loss of Kshs.714,812,617 in the year ended 30 June 2018. The accumulated deficit increased from Kshs.6,815,525,338 as at 30 June 2017 to Kshs.7,530,337,955 as at 30 June 2018. The current liabilities of Kshs.9,482,116,545 also exceeded current assets of Kshs.1,563,896,190 by Kshs.7,918,220,355 as at 30 June 2018. This situation indicates that the company is facing financial challenges. Therefore, the financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the Government and creditors.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

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

Basis for Conclusion

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited

assurance as to whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

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

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1265. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit that I have concluded are material to be reported. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this review.

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 Companies Act, 2015, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Agro-chemical and Food Company Limited so far as appears from the examination of those records; and,

- iii. The Agro-chemical and Food Company Limited financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the projects ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate Agro-chemical and Food Company Limited or to cease operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of 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 Agro-chemical and Food Company Limited policies and procedures may deteriorate.

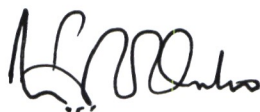
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Agro-chemical and Food Company Limited's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause Agro-chemical and Food Company Limited to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of Agro-chemical and Food Company Limited to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

31 December 2018



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE 2018

	Notes	2018 Kshs	2017 Kshs
Sales / Turnover	6	615,924,689	1,335,516,279
Gain/(Loss) on Disposal of non financial assets	7	(698,500)	1,372,000
Other Income	8	27,202,769	351,519,999
TOTAL REVENUES		642,428,958	1,688,408,278
OPERATING EXPENSES			
Cost of Sales	9	791,674,162	1,066,740,757
Administrative costs	10	216,442,495	223,683,294
Selling and Administration Costs	11	6,225,917	6,412,124
Depreciation of property, plant and equipment	15 (A)	102,774,804	101,981,912
Amortization of intangible assets	16	5,446,437	5,997,357
TOTAL OPERATING EXPENSES		1,122,563,815	1,404,815,444
		(480,134,857)	283,592,834
Finance Income	12	57,070,465	79,959,016
Finance Costs	13	274,901,645	262,271,031
OPERATING PROFITS / (LOSS)		(697,966,037)	101,280,818
INCOME TAX			
Taxation Previous Year	14	86,520	34,584,988
Taxation Current Year	14	16,760,060	26,044,982
TOTAL INCOME TAX		16,846,580	60,629,969
Net Profit / Loss after tax		(714,812,617)	40,650,849

ANNUAL REPORTS & FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30TH JUNE 2018



STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30TH JUNE 2018

		2017-2018	2016-2017
		KSHS	KSHS
		(12 Months)	(12 Months)
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	15 (A)	2,440,586,034	2,525,268,857
Intangible Assets	16	7,461,959	12,908,396
CURRENT ASSETS			
Inventories and Work In Progress	17	326,171,435	264,702,121
Receivables	18	405,123,715	313,281,903
Short Term Deposits	19	608,411,367	987,557,905
Cash and cash equivalents	20	224,189,674	48,464,030
		<u>1,563,896,190</u>	<u>1,614,005,959</u>
TOTAL ASSETS		<u>4,011,944,184</u>	<u>4,152,183,213</u>
EQUITY			
Share Capital	21	60,000,000	60,000,000
Capital Reserves		2,000,165,592	2,000,165,592
Accumulated deficit		(7,530,337,955)	(6,815,525,338)
TOTAL EQUITY		<u>(5,470,172,364)</u>	<u>(4,755,359,747)</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and Other Payables	23	364,737,418	54,371,203
Provisions	24	23,718,252	25,756,549
Loans	25	9,072,862,152	8,797,331,562
Tax Payable	26	20,798,723	30,083,644
TOTAL LIABILITIES		<u>9,482,116,545</u>	<u>8,907,542,958</u>
TOTAL EQUITY AND LIABILITIES		<u>4,011,944,181</u>	<u>4,152,183,211</u>

The financial statements were approved by the Board on September 25, 2018 and signed on its behalf by:

Mr. Ashok Agrawal
Resident Director
And Chief Executive

Mr. Richard Aiyabei
Chairman of the Board

Statement of Changes in Equity

For the year ended 30th June 2017	Share Capital	Revaluation Reserve **	Revenue Reserves	Totals
	(Kshs)	(Kshs)	(Kshs)	(Kshs)
As at 1st July 2016	60,000,000	1,718,390,029	(6,574,549,120)	(4,796,159,091)
Profit for the year	-	-	40,799,345	40,799,345
Revaluation Reserve Gain		281,775,563	(281,775,563)	
As at 30th June 2017	60,000,000	2,000,165,592	(6,815,525,338)	(4,755,359,746)
As at 1st July 2017	60,000,000	2,000,165,592	(6,815,525,338)	(4,755,359,746)
Profit for the year			(714,812,617)	(714,812,617)
As at 30th June 2018	60,000,000	2,000,165,592	(7,530,337,955)	(5,470,172,363)

** Revaluation reserve relates to the revaluation surplus of fixed assets done over a period of time.



STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2018

STATEMENT OF CASHFLOWS FOR YEAR ENDED 30TH JUNE 2018

		2018	2017
		KSHS.	KSHS.
Cash Generated from / (Used in) Operations			
Cash from operations	28	(158,585,433)	19,914,872
Interest paid			
Dividends paid			
Taxation Paid	26	(26,044,982)	(13,787,153)
Net Cash generated from / (Used in) operating activities		(184,630,414)	6,127,719
INVESTMENT ACTIVITIES			
Purchase of assets	15(A)	(19,404,481)	(48,946,866)
Purchase of Intangible Assets	16	-	
Disposal of Asset - Sales Proceeds		614,000	2,687,000
Net Cash generated from / (Used in) investing activities		(18,790,481)	(46,259,866)
FINANCING ACTIVITIES			
Repayment of Loans	25(B)		(150,000,000)
Net Cash generated from / (Used in) financing activities		-	(150,000,000)
Net Increase/(decrease) in cash and cash equivalents(a+b+c)		(203,420,895)	(190,132,147)
Cash and cash equivalent at the beginning of the year		1,036,021,922	1,226,154,069
Cash and cash equivalent at the end of the Year	20(C)	832,601,027	1,036,021,922

STATEMENT OF COMPARISON OF BUDGET AGAINST ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2018

Revenue	Budget	Actual Outcome	Performance Difference	Performance %	Remarks
SALES	2,137,240,000	615,924,689	(1,521,315,311)	-71%	Unfavourable
PROFIT / (LOSS) ON SALE OF FIXED ASSETS	2,500,000	(698,500)	(3,198,500)	-128%	Unfavourable
INTEREST ON TREASURY BILLS & FIXED DEPOSITS	52,000,000	57,070,465	5,070,465	10%	Favourable
RENT PAID BY EMPLOYEES	7,000,000	6,852,551	(147,449)	-2%	Unfavourable
MISCELLANEOUS INCOME	10,200,000	19,581,650	9,381,650	92%	Favourable
CONTRACT BOTTLING	71,064,000	768,568	(70,295,432)	-99%	Unfavourable
TOTAL INCOME	2,280,004,000	699,499,423	(1,580,504,577)	-69%	Unfavourable
Expenses					
Cost of sales					
Materials, Energy& Packing	913,722,000	548,575,360	365,146,639.62	60%	Favourable
Direct Salaries, Wages& Benefits	324,771,000	244,009,523	80,761,477.36	75%	Favourable
Plant Maintenance & Other Factory Overheads	86,026,000	56,260,162	29,765,837.80	65%	Favourable
Selling and Distribution	6,921,000	6,225,917	695,083.49	90%	Favourable
Excise Duty	126,000,000	36,356,400	89,643,600.00	29%	Favourable
EABL Contract Bottling Expenses	17,107,000	12,049	17,094,951.00	0%	
Stock Adjustments- (Note 11)	0	(93,539,332)	93,539,332.11		
TOTAL COST OF SALES / DIRECT COSTS	1,474,547,000	797,900,079	676,646,921	54%	
Gross Profit	805,457,000	(98,400,655)	(903,857,655)		
Expenses					
ADMINISTRATION EXPENSES	360,346,000	215,813,550	144,532,450.31	60%	Favourable
Depreciation	135,697,000	108,221,241	27,475,759.00	80%	Favourable
INTEREST ON LOANS	275,657,000	275,530,591	126,409.32	100%	Favourable
CORPORATION TAX FOR PREVIOUS YEARS	0	86,520	(86,520.00)		
CORPORATION TAX FOR CURRENT YEAR	0	16,760,060	(16,760,060.00)		
Total Expenditure	771,700,000	616,411,961	155,288,039	80%	
Surplus	33,757,000	(714,812,617)	(748,569,617)		

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

a) **Sales**

During the current year, the Company faced a problem of acute shortage of molasses coupled with an influx of cheap alcohol in the market. This led to the low production and sale of alcohol compared to budget as a result of the closure of the alcohol plant for 192 days.

b) **Profit on disposal of fixed assets**

The Company did not achieve the budget on disposal of fixed assets as a result of non disposal of assets earmarked for disposal as the bids were non responsive.

c) **Contract bottling**

During the year 2016/2017, the Company entered into a contract with EABL for packaging compounded spirit on their behalf at the ACFC spirit bottling plant. However, during the year 2017/2018, EABL terminated the contract due to change in strategy hence the material difference.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2018

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 for both local and export markets. 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. 714,812,617 (2016/2017: profit of Kshs. 40,799,345) during the year which was added to accumulated losses totalling Kshs. 7,530,337,955 (2016/2017 6,815,525,338). In addition, the Company was in a net current liability position of Kshs. 7,91,822,035 (2016/2017: Kshs. 7,293,536,999). These and other conditions indicate doubt as to the going concern status of the company. Management has put in place the following to address the situation:

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

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

- i) Relevant new standards and amendments to published standards effective for the year ended June 30, 2018.



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

Amendment/Interpretation to a standard	Effective date	Impact
IFRS 15: Revenue from Contracts with Customers <i>(Issued 28 May 2014)</i>	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p> <ul style="list-style-type: none"> • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognise revenue when (or as) the entity satisfies a performance obligation. <p>Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p> <p><i>(The application of this amendment has been adopted by the Company)</i></p>
IFRIC 22: Foreign Currency Transactions and Advance Consideration <i>(Issued 8 December 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2018	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary. <p>The Interpretations Committee came to the following conclusion:</p> <ul style="list-style-type: none"> • The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary



		<p>prepayment asset or deferred income liability.</p> <ul style="list-style-type: none"> If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. <p><i>(The application of this amendment has been adopted by the Company)</i></p>
<p>Disclosure Initiative (Amendments to IAS 7)</p> <p><i>(Issued 29 January 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends <u>IAS 7 Statement of Cash Flows</u> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.</p> <p><i>(The application of this amendment has been adopted by the Company)</i></p>
<p>Clarifications to IFRS 15 'Revenue from Contracts with Customers'</p> <p><i>(Issued 12 April 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2018</p>	<p>Amends <u>IFRS 15 Revenue from Contracts with Customers</u> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.</p> <p><i>(The application of this amendment has been adopted by the Company)</i></p>

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact
<p>IFRS 16: Leases</p> <p><i>(Issued 13 January 2016)</i></p>	<p>Applicable to annual reporting periods beginning on or after 1 January 2019</p>	<p>IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.</p> <p><i>(The application of this amendment has been adopted by the Company)</i></p>



<p><i>IFRIC 23: Uncertainty over Income Tax Treatments</i> <i>(Issued 7 June 2017)</i></p>	<p>Applicable to annual reporting periods beginning on or after 1 January 2019</p>	<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances <p><i>(The application of this amendment has been adopted by the Company)</i></p>
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The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

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

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

iii) Early adoption of standards

The company did not early-adopt any new or amended standards in the year 2018.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue Recognition

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

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

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

b) **Property plant and Equipment**

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

Certain categories of property plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued at periodic intervals usually after five years by independent external valuers. The basis of valuation is depreciated replacement cost. The property plant and equipment were revalued during the current financial year by an Independent valuer Ms. Lloyd Masika on June 30, 2017.

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

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

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

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



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

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

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

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

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

d) **Intangible Assets**

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

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



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 recognised so that the asset is written down immediately to its estimated recoverable amount.

f) **Inventories**

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

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

g) **Trade and other receivables**

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

h) **Taxation**

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



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

results for the year as shown in the financial statements, adjusted with the tax legislation. Current corporate tax rate is 30.0% on adjusted profit. There is no tax liability pertaining to the business income in view of losses available for carry forward of Kshs. 5,786,999,566 (2016/2017 5,072,186,949).

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

i) **Deferred tax**

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

j) **Cash and cash equivalents**

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

k) **Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into

account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.



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

l) **Trade and other payables**

Trade and other payables are non-interest bearing and are carried at amortised 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 granted on 19th July 2004 and on 30, June 2011, the Trustee deed, Funds Management agreement, Investment policy agreement has been complied with. The accounts for 2017 have been audited and submitted to the Retirement Benefit Authority. The scheme had a total of 124 members composed of 104 active members and 20 deferred members. During the year, 9 members joined the scheme while 6 members left the scheme. The scheme funds are managed independently of the Company's assets by ICEA Lion Life Assurance while the scheme administrator is Minet Insurance Company.

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

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

The Company's contribution to the National Social Security Fund is limited to specific contributions legislated from time to time and is currently at Kshs. 200 per employee per



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

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 per pay earned over the contract period is paid at the end of the contract. The monetary liability is accrued at the end of each year based on the completed period of service.

o. **Bonus Scheme**

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

p. **Provision for staff leave**

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

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/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. The current ruling exchange rate against the US\$ was Kshs. 101.150 (year 2017 Kshs.103.7117) 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 2017-2018 was approved by the Board of Directors and subsequently approved by the National Treasury on June, 2, 2017 in compliance with the Section 11 of the State Corporations Act, Cap 446 and section 4 Part (3), of the legal notice No. 93 on state corporations (performance contracting) regulation 2004. The Company did not have any additional appropriations and the budget was implemented as approved during the financial year.

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

on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on Page on page 26 of these financial statements.

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, 2018.



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

u. **Assets held for sale**

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

v. **Leases**

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

w. **Company as a lessor**

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

x. **Company as a Lessee**

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

y. **Borrowing Costs**

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

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.



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

The Government of Kenya and The Mehta Group are also considered related parties by government support and Management support respectively,

aa. **Research and Development expenditure**

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

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

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

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;



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

and available for sale assets. Management determines the appropriate classification of its investments at initial recognition.

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

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

ee. **Loans and receivables**

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

ff. **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.

gg. **Held to maturity**

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

hh. **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



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

(c) Financial assets held to maturity.

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

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

ii. **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.

jj. **Restructuring and rationalization provisions**

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



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

kk. **Dividends**

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

ll. **Provisions**

Provisions were raised and management determined an estimate based on the information available. An additional disclosure of these estimates of provisions is included in note 21. Provisions are made at the management's best estimate of the expenditure required to

settle the obligation at the reporting date and are discounted to present value where the effect is material. The Company has in place a bad debt provision where bad debts of over 5 years shall only be written off on the authority of the Board and shall be made only after all reasonable steps have been taken to recover the debt.

mm. **Contingent Liabilities**

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

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

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent

liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could

result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.



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

Estimates and assumption

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

Useful lives and residual values

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

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

CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. SALES/ TURNOVER

	2017-2018	2016-2017
Spirit Sales	454,569,357	1,156,638,317
Carbon Dioxide Sales	2,381,187	7,467,880
Yeast Sales	158,974,145	171,410,082
	615,924,689	1,335,516,279

7. GAINS / (LOSS) ON DISPOSAL OF NON FINANCIAL ASSETS

Disposal of Motor Vehicles	(698,500)	1,372,000
	(698,500)	1,372,000

8. OTHER INCOME

Rent paid by employees	6,852,551	6,857,589
Miscellaneous Income	19,581,650	11,161,574
Contract Bottling	768,568	51,725,273
Revaluation Surplus		281,775,563
	27,202,769	351,519,999

9. COST OF SALES

Materials, Energy and Packing	548,575,360	670,068,400
Direct Salaries, wages and benefits	244,009,523	255,558,631
Plant Maintenance and other Factory overheads	56,260,162	92,437,485
Excise Duty	36,356,400	24,354,650
EABL Contract Bottling Expenses	12,049	13,736,097
Stock adjustments	(93,539,332)	10,585,495
	791,674,162	1,066,740,757



NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. ADMINSTRATIVE EXPENSES

Staff Costs	104,575,510	109,525,127
Advertising and Public relations	0	585,680
Audit Fees	780,000	780,000
Computer Expenses	7,115,587	4,501,912
Donations	23,800	0
Subscriptions and Newsletter	824,900	905,130
Guest House Expenses	1,406,038	1,876,662
Legal fees	1,773,197	2,017,791
Management Fees	31,555,761	31,206,431
Office equipment repairs	1,476,133	1,476,663
Motor Vehicle running Expenses	11,210,796	7,502,396
Postage, telegrams and telephone	951,966	1,006,387
Printing and stationery	2,215,333	1,639,799
Travelling and Accommodation	8,002,260	9,668,882
Marketing and Nairobi office expenses	16,095,192	23,762,392
Productivity Improvement	0	2,400
Consultancy and performance contracting activities	390,000	427,930
Security Hire	7,393,459	6,926,940
Insurance and Licenses	14,449,107	12,159,968
Corruption Prevention activities	0	10,400
Rent	2,449,251	1,892,948
Repairs and renewals (Housing)	79,500	600,050
Recruitment expenses	327,313	156,182
Directors Honorarium		720,000
Board and Committee Sitting Allowances	2,855,051	3,944,504
Write Back on Credit on Debtors balances	0	(229,190)
Bank Charges	282,257	148,495
Consultancy and professional services	210,085	467,414
	216,442,495	223,683,294



NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. (B). STAFF COSTS

	2017-2018	2016-2017
Salary and allowances for Permanent employees	283,705,213	299,029,168
NSSF Contribution	672,400	824,200
Pension and Retirement Contributions	10,348,745	10,979,960
Leave pay and Gravitry	9,544,417	13,825,825
Other Staff Welfare costs	44,314,258	40,424,606

	348,585,032	365,083,758
Direct Salaries, wages and benefits (Note 9)	244,009,523	255,558,631
Staff Costs (Note 10)	104,575,510	109,525,127

	348,585,032	365,083,758
The average number of Employees at the end of the year was:		
Permanent Employees - Management	101	105
Permanent Employees - Management	139	161
Temporary and Contract Employees	8	8
Total	248	274

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. SELLING AND DISTRIBUTION EXPENSES	2017-2018	2016-2017
Vehicle Distribution Costs	4,090,321	4,090,321
Distribution Staff Costs	2,135,596	2,321,803
	<u>6,225,917</u>	<u>6,412,124</u>
12. FINANCE INCOME	2017-2018	2016-2017
Interest on Treasury bills and fixed deposits	57,070,465	79,959,016
	<u>57,070,465</u>	<u>79,959,016</u>
13. FINANCE COST		
Exchange Loss / (Gains) Operations	96,430	(399,966)
Finance Income	(725,376)	(845,152)
Interest on loans	275,530,591	263,367,654
	<u>274,901,645</u>	<u>262,122,536</u>
14. INCOME TAX EXPENSE / (CREDIT)		
a) Current taxation		
Current Taxation based on Profit of Separate sources on income at 30%	16,760,060	26,044,982
Previous Year Taxation	86,520	34,584,988
Current tax prior year under / (over provision)		
Total	<u>16,846,580</u>	<u>60,629,969</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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AGRO-CHEMICAL AND
FOOD COMPANY LTD.

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

COST / VALUATION	Leasehold Land Kshs.	Miscellaneous property Kshs.	Building, Housing & Factory Kshs.	Plant and Machinery Kshs.	Capital Work in Progress Kshs.	Motor Vehicles Kshs.	Computers and Accessories Kshs.	Furniture and Equipment Kshs.	Total Kshs.
COMPRISING									
As at 1st July 2016	19,772,100	13,030,478	348,616,429	2,329,112,230	52,384,604	77,307,937	17,545,106	17,228,353	2,874,997,237
Accumulated Depreciation	(1,259,804)	(3,127,330)	(48,228,644)	(464,573,500)	0	(39,037,641)	(13,178,846)	(7,748,120)	(577,153,885)
Carrying Amount as at 1st July 2017	18,512,296	9,903,148	300,387,786	1,864,538,730	52,384,604	38,270,296	4,366,260	9,480,233	2,297,843,353
Revaluation Surplus/Loss	28,084,556		116,057,214	124,876,270		12,165,004	(59,760)	652,267	281,775,551
On Revaluation on July 1, 2016	56,500,000		416,445,000	1,989,415,000	52,384,604	50,435,300	4,306,500	10,132,500	2,579,618,904
Additions				768,246	48,178,620				48,946,866
Transfer from Work In progress			2,303,192	10,059,164	(19,579,327)	5,439,352	1,406,930	370,689	0
On Disposal						(1,315,000)			(1,315,000)
As at 30th June 2017	56,500,000	0	418,748,192	2,000,242,410	80,983,897	54,559,652	5,713,430	10,503,189	2,627,250,770
DEPRECIATION									
As at 1st July 2016	1,259,804	3,127,330	48,228,644	464,573,500		39,037,641	13,178,846	7,748,120	577,153,885
On Revaluation	(1,259,804)	(3,127,330)	(48,228,644)	(464,573,500)		(39,037,641)	(13,178,846)	(7,748,120)	(577,153,885)
Charge for the Year July 2016-June 2017	1,488,575		10,468,705	80,681,697		7,119,780	1,142,686	1,080,469	101,981,912
As at 30th June 2017	1,488,575	0	10,468,705	80,681,697		7,119,780	1,142,686	1,080,469	101,981,912
NET BOOK VALUE									
As at 30th June 2017	55,011,425	(0)	408,279,487	1,919,560,713	80,983,897	47,439,872	4,570,744	9,422,720	2,525,268,857
As at 30th June 2016	18,512,296	9,903,148	300,387,786	1,864,538,730	52,384,604	38,270,296	4,366,260	9,480,233	2,297,843,353

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. INTANGIBLE ASSETS

COST

As at July 1, 2016	30,097,992	30,097,992
Additions		
Disposals		
As at June 30, 2017	30,097,992	30,097,992

AMORTISATION

As at July 1, 2017	17,189,595	11,192,238
Charge for the year	5,446,437	5,997,357
Disposals		
Impairment loss		
As at June 30, 2018	22,636,032	17,189,595

NET BOOK VALUE

As at June 30, 2018	7,461,959	12,908,396
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17. INVENTORIES AND WORK IN PROGRESS

	2017-2018	2016-2017
Raw materials and spares	200,181,114	233,818,257
Finished Goods	117,216,892	23,677,560
Work In progress	8,773,429	7,206,304
	326,171,435	264,702,121

18. TRADE AND OTHER RECEIVABLES

Trade Debtors	288,188,640	163,510,448
Pre-payments	11,481,009	21,774,498
Creditors with debit Balances	52,788,754	63,939,441
Other debtors	117,829,744	129,221,948
Total	470,288,146	378,446,335
Provision for Bad and Doubtful debts	(65,164,432)	(65,164,432)
	405,123,715	313,281,903



NOTES TO THE FINANCIAL STATEMENTS (Continued)

18.(a) TRADE AND OTHER RECEIVABLES

Trade receivables (note 18(b))	288,188,640	163,510,448
Deposits and prepayments	11,481,009	21,774,498
Creditors with debit Balances	52,788,754	63,939,441
Staff receivables (note 18 (c))	18,958,077	21,894,291
Other receivables	98,871,667	107,327,658
Gross trade and other receivables	470,288,146	378,446,335
Other: Provision for bad and doubtful receivable	(65,164,432)	(65,164,432)
Net trade and other receivables	405,123,715	313,281,903



18. TRADE AND OTHER RECEIVABLES

Trade Debtors	288,188,640	163,510,448
Pre-payments	11,481,009	21,774,498
Creditors with debit Balances	52,788,754	63,939,441
Other debtors	117,829,744	129,221,948
Total	470,288,146	378,446,335
Provision for Bad and Doubtful debts	(65,164,432)	(65,164,432)
	405,123,715	313,281,903

18.(a) TRADE AND OTHER RECEIVABLES

Trade receivables (note 18(b))	288,188,640	163,510,448
Deposits and prepayments	11,481,009	21,774,498
Creditors with debit Balances	52,788,754	63,939,441
Staff receivables (note 18 (c))	18,958,077	21,894,291
Other receivables	98,871,667	107,327,658
Gross trade and other receivables	470,288,146	378,446,335
Other: Provision for bad and doubtful receivable	(65,164,432)	(65,164,432)
Net trade and other receivables	405,123,715	313,281,903

18. (b)TRADE RECEIVABLES

Gross trade receivables	288,188,640	163,510,448
Debtors with credit Balances	(74,598,156)	
	213,590,483	163,510,448

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

Less than 30 days	137,470,960	52,396,666
Between 30 and 60 days	(5,379,378)	(13,607,398)
Between 61 and 90 days	7,758,172	(1,484,436)
Between 91 and 120 days	10,154,079	(20,798,450)
Over 120 days	63,586,649	147,004,067
	213,590,483	163,510,448

18. (c)STAFF RECEIVABLES

Gross staff loans and advances	18,957,215	21,894,291
Provision for impairment loss		
	18,957,215	21,894,291

Less: Amounts due within one year

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Amounts due after one year

	18,957,215	21,894,291
	0	(0)



19. SHORT TERM DEPOSITS

	2017-2018	2016-2017
N.b.k Fixed Deposit	441,940,271	831,986,718
K.C.B Fixed deposit	155,000,000	155,000,000
NBK Call deposit	6,835,110	571,186
K.C.B Fixed deposit -School	4,635,986	
	<u>608,411,367</u>	<u>987,557,905</u>

The average rate of fixed deposit interest was 8.55% year 2016/2017 9%

20. CASH AND CASH EQUIVALENTS

Cash at Bank	223,536,025	47,694,617
Cash in Hand	656,289	769,413
	<u>224,192,314</u>	<u>48,464,030</u>

21. ORDINARY SHARE CAPITAL

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Financial Institution	Account Number	2017-2018	2016-2017
a) Current Account			
National Bank Current Account Kisumu	01020000782601	38,009,649	8,403,748
Barclay Current Account - Kisumu	1009560	52,388,506	2,036,415
National Bank Current Account Harambee Avenue	1020000782600	25,440,345	11,893,392
Kenya Commercial Bank School Account- Muhoroni	1104055325	4,880,029	6,548,938
Kenya Commercial Bank -Muhoroni	110-4043-084	99,572,687	11,485,256
Sub Total		220,291,217	40,367,748
b) On Call Deposits			
Sub Total			
c) Fixed Deposits Accounts			
National Bank of Kenya		441,940,271	831,986,718
KCB		159,635,986	155,000,000
National Bank of Kenya		6,835,110	571,186
Sub Total		608,411,367	987,557,905
d) Foreign Currency Account (US\$)			
Nbk US Dollar Account- Harambee Avenue	0200007826500	3,240,189	3,322,249
Sub Total		3,240,189	3,322,249
e) Savings Account			
National Bank of Kenya Savings Account Kisumu	1241000782600	4,620	4,004,620
Sub Total		4,620	4,004,620
f) Others- Cash in Hand			
Petty cash - Nairobi Office		184,737	37,626
Petty Cash Muhoroni		410,819	731,782
Petty Cash School		60,733	6
Sub Total		656,289	769,413



NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. REVALUATION RESERVE

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

23. TRADE AND OTHER PAYABLES

Trade Payables	56,633,536	29,051,372
Debtors with credit Balances	74,598,156	13,225,460
Other Payables	233,505,727	12,094,372
	<u>364,737,419</u>	<u>54,371,204</u>

24. PROVISION

Balance as at the beginning for staff Leave	19,792,306	20,024,066
Balance as at the beginning for Service Gratuity	5,964,244	5,579,590
Provision for staff Leave at the beginning of the year	17,872,949	19,792,306
Provision for Service Gratuity at the beginning of the year	2,293,696	1,591,690
Staff Leave paid during the year	(19,792,306)	(20,024,066)
Service Gratuity paid during the year	(2,412,638)	(1,207,037)
	<u>23,718,251</u>	<u>25,756,549</u>

25. BORROWINGS

	Interest Rate		
GOK ON-LENT	7%	2,941,884,000	2,941,884,000
Loans interest deferred		5,545,451,358	5,339,519,478
Interest on GOK paid Loan	13.49%	585,526,795	515,928,084
		<u>9,072,862,152</u>	<u>8,797,331,562</u>

25. (B) BORROWINGS MOVEMENT

Opening balance	8,797,331,562	8,683,963,908
Interest For the period	275,530,591	263,367,654
Loan Repaid	0	(150,000,000)
Loan Balance	<u>9,072,862,153</u>	<u>8,797,331,562</u>

The Company has an outstanding loan of Kshs. 9,072,862,153 with the Government of Kenya comprising of The principal GOK Guaranteed loan of Kshs. 2,941,884,000 and interest thereon of Kshs. 5,545,451,358 charged at 7%. The second loan is the GOK paid loan where the Company



NOTES TO THE FINANCIAL STATEMENTS (Continued)

has already paid the principal. The balance of Kshs. 585,526,795 is the interest charged on the balance interest at the average ruling lending rate during the year. The interest rate for the current year is 13.49% (2016/2017: 13.61%)

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. TAX PAYABLE

Tax Brought Forward	30,083,643	17,825,814
Income tax charge	16,760,060	26,044,982
Tax Paid	(26,044,982)	(13,787,153)
	<u>20,798,721</u>	<u>30,083,643</u>

27. CAPITAL COMMITMENTS

Authorised and Contracted	60,857,600	86,049,000
Authorised but not Contracted	108,133,100	66,552,000
TOTAL	<u>168,990,700</u>	<u>152,601,000</u>

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. NOTES TO THE STATEMENT OF CASHFLOWS

	2018	2017
	KSHS.	KSHS.
a) Reconciliation of operating profit/(loss) to cash generated from/ (used in) operations		
Operating Profit/(Loss)	(697,966,037)	101,429,314
Adjustment for items not involving movement of funds:		
Interest on Loans	25 (B) 275,530,592	263,367,655
Depreciation	15(A) 102,774,804	101,981,912
Amortization	16 5,446,437	5,997,357
Profit on Disposal of property Plant and Equipment	7 698,500	(1,372,000)
Revaluation Surplus		(281,775,563)
Tax Charged Current year	14 (16,760,060)	(26,044,982)
Tax Charged Previous year	14 (86,520)	(34,584,988)
Net Operating Profit before changes in working capital		
changes in working capital:	(330,362,284)	128,998,706
Increase/ (Decrease) in working Capital		
Increase in inventories	(61,469,314)	(73,815,004)
Increase in receivables	(91,841,811)	199,756,530
Increase in payables	310,366,215	(261,223,236)
Staff Leave payable current year	17,872,949	19,792,306
Staff Leave paid	(19,792,306)	(20,024,066)
Gratuity Payable Paid	(2,412,638)	(1,207,037)
Gratuity Payable Current year	2,293,696	1,591,690
Taxation Current year	16,760,060	26,044,982
Tax Payable		
Net Cash generated / (used in) operations	(158,585,433)	19,914,872
b) Analysis of changes in Loans		
Balance as at the beginning of the year	8,797,331,562	8,683,963,908
Receipts during the year		
Repayments during the year	-	(150,000,000)
Accrued Interest	275,530,591	263,367,654
Balance at the end of the year	9,072,862,153	8,797,331,562
c) Analysis of Cash and Cash Equivalent		
Short term deposits	608,411,367	987,557,905
Cash at Bank	223,533,385	47,694,617
Cash in Hand	656,289	769,413
Balance as at the end of the year	832,601,040	1,036,021,935



NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. CONTINGENT LIABILITY

- i) There is a pending demand of Kshs. 634,644,435 from Kenya Revenue Authority in respect of Withholding Tax assessment on interest paid to Treasury over a period against the Loan paid by Treasury on behalf of the Company. The Directors are of the opinion that this demand will be vacated and hence no liability arising.

a) Kenya Revenue Authority- Tax demand	634,644,435	634,644,435
	<u>634,644,435</u>	<u>634,644,435</u>

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

	2018	2017
i) Bank Gurarantees		
a) Kenya Airways	500,000	500,000
b) Kenya Revenue Authority	38,836,350	38,836,350
c) Toyoya Kenya	150,000	150,000
	<u>39,486,350</u>	<u>39,486,350</u>

30. RELATED PARTY TRANSACTIONS

a) Government of Kenya

The Government of Kenya owns 56% of the Company shareholding through its shareholders ADC 28% and ICDC 28%. The Company has an outstanding loan of Kshs. 8,797,331,562 with the government of Kenya.

b) The Mehta Group Limited

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

c) Other related parties

Other related parties include

- i) Key Management
- ii) Board of Directors



NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. RELATED PARTY TRANSACTIONS

Transactions with related parties

i) Government of Kenya

Government of Kenya Loan

2018 Kshs	2017 Kshs
9,072,862,152	8,797,331,562

ii) The Mehta Group Limited

Management Fees

2018 Kshs	2017 Kshs
31,555,761	31,206,431

Key Management remuneration

2018 Kshs	2017 Kshs
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Directors

2,281,600	3,691,200
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Resident Director and Chief Executive

935,930	825,650
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Key Management remuneration

27,638,757	28,656,180
------------	------------

30,856,287	33,173,030
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Due from related parties

Due from Government of Kenya

NIL	NIL
-----	-----

Due from The Mehta Group

NIL	NIL
-----	-----

Total Due

NIL	NIL
-----	-----

Due to related parties

Due to Government of Kenya

2018 Kshs	2017 Kshs
9,072,862,152	8,797,331,562

Due to The Mehta Group

NIL	NIL
-----	-----

Due to senior management staff

NIL	NIL
-----	-----

Total Due

9,072,862,152	8,797,331,562
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The Compensation for the Resident Director relates to compensation paid to his local travel when executing official duties. The salary for the CEO is paid by the management agent under the management Contract hence not recognized.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT POLICIES

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

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

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

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

a. **Credit risk**

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

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2018 and 30 June 2017 is made up as follows:



NOTES TO THE FINANCIAL STATEMENTS (Continued)

Credit Risk

	Fully Performing	Past due	Impaired	Total
	Kshs	Kshs	Kshs	Kshs
As at June 30, 2018				
Cash and cash equivalents	831,944,751	63,586,649		895,531,401
Trade receivables	213,590,483		0	213,590,483
Total	1,045,535,235	63,586,649	0	1,109,121,884
As at June 30, 2017				
Cash and cash equivalents	1,035,252,521	147,004,067		1,182,256,588
Trade receivables	163,510,448		0	163,510,448
Total	1,198,762,969	147,004,067	0	1,345,767,036

The bank balances are fully performing.

b. Market Risk

i) Currency Risk

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

As at June 30, 2018 an increase/decrease of 5 Percentage points would have resulted in an increase/decrease in pre-tax profits by Kshs. 162,001 (2016/2017: 166,328). This risk is attributed to the Bank deposits of US\$. 32,033.50 held in foreign currency.

ii) Interest rate risk

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

As at 30th June 2018 an increase /decrease of 5 percentage points would have resulted in an increase/decrease in pre-tax profits of kshs. 3,479,935.55 (2016/2017 Kshs. 2,981,324.37).

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Company invest in fixed deposits of its surplus funds. The average interest rate during the year was 8.5%. An increase/decrease in the interest rate during the year would have resulted in an increase or decrease of Kshs. 2,853,523 (2016/2017: 3,997,501).

c. Liquidity Risk

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

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

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

Liquidity Risk

	Less than 1 Month	Between 1 to 3 months	Over 3 months	Total
	Kshs	Kshs	Kshs	Kshs
As at 30th June 2018				
Trade Payables	364,737,418			364,737,418
Current portion of borrowings	9,072,862,152			9,072,862,152
Provisions	23,718,252			23,718,252
Tax Payable	16,760,060			16,760,060
Total	9,478,077,882	0	0	9,478,077,882
As at 30th June 2017				
Trade Payables	54,371,203			54,371,203
Current portion of borrowings	8,797,331,562			8,797,331,562
Provisions	25,756,549			25,756,549
Tax Payable	26,044,982			26,044,982
				0
	8,903,504,295	0	0	8,903,504,295

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 generally accepted standards of corporate behaviour.

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

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

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

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

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

e. Capital Risk Management

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

The capital structure of the company consists of debt which includes borrowings disclosed in Note 25 as well as retained earnings and issued capital as presented on note 21.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	2018	2017
	Kshs	Kshs
Revaluation reserve	2,000,165,592	2,000,165,592
Retained earnings	(7,534,544,076)	(6,815,525,338)
Capital Reserve		
Total Funds	(5,534,378,485)	(4,815,359,747)
Total borrowings	9,072,862,152	8,797,331,562
Less cash and bank balances	832,603,680	1,036,021,935
Net debt / (exces cash and cash equivalents)	8,240,258,472	7,761,309,627
Gearing	-67%	-62%

32. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASE

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

	2018	2017
	Kshs	Kshs
Payable within one year	1,946,586	1,541,940
Payable after one year but not later than 5 years	6,318,637	6,978,049
Total	8,265,223	8,519,989

The current lease will expire on June 30, 2022

33 INCOPORATION

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.)



PROGRESS REPORT ON FOLLOW UP OF AUDITORS RECOMMENDATIONS

The progress report on follow up of auditors recommendations will be updated once the 2017 Annual Audit report is received from the Kenya national audit office.

