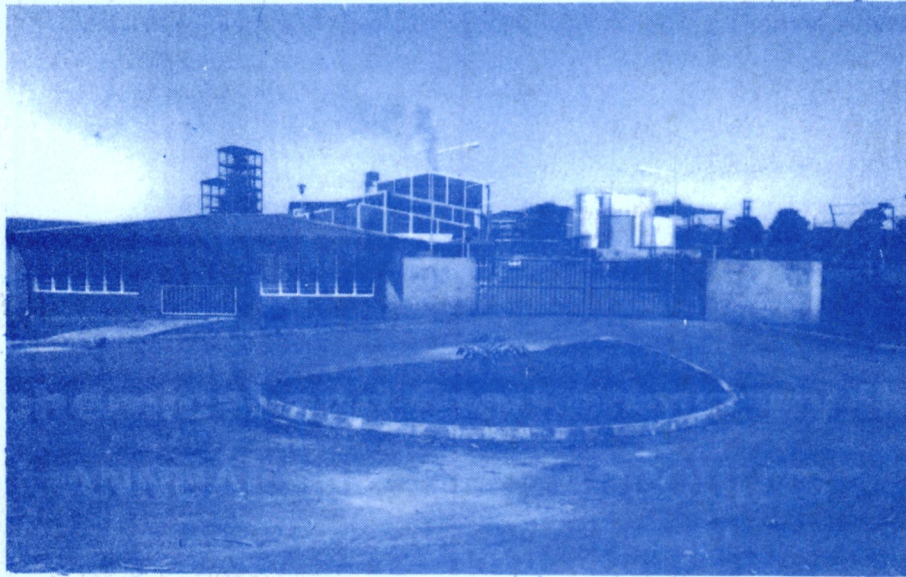


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AGRO-CHEMICAL AND FOOD COMPANY LIMITED

REPORT AND ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 1991

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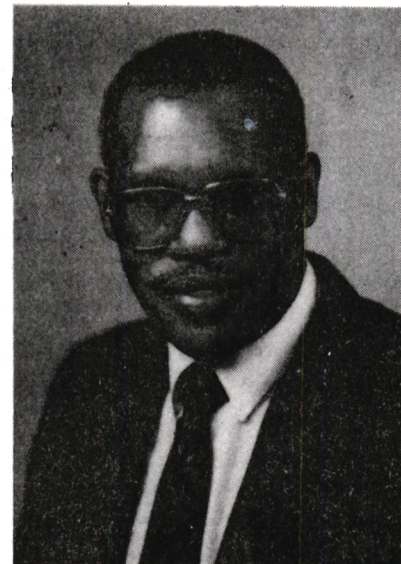
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AGRO—CHEMICAL AND FOOD COMPANY LIMITED
CHAIRMAN'S REPORT FOR THE YEAR ENDED 30.6.91



It is my great pleasure to present the annual report of Agro-Chemical and Food Company Limited for the year ended 30th June, 1991.

Economic Outlook

The financial year ended 30th June, 1991 experienced a slowdown of economic activities on the international scene resulting in a major world-wide recession. In spite of the recession inflation rates in most countries continued to rise, overall economic growth rates continued to decline thus affecting per capita incomes adversely. Resultantly, most countries (including Kenya) adopted restrictive monetary policies in order to combat the inflationary tendency.

The single most dominant effect which caused a slowdown in world economic growth was the Gulf war which affected most oil importing economies adversely. Besides the Gulf war and the general world recession, the international scene also witnessed major reforms in the structure of economic powers such as ones that occurred in Eastern Europe and the Soviet Union. The developing countries, Kenya included, felt and may continue to feel the side effects of this unprecedented transformation especially as prices of primary commodities continued to decline and the funds usually available to developing countries got reduced substantially.

In bid to prop-up economic activity the Government decided on the rehabilitation of the economy and many non-strategic parastatal organizations were lined up for privatization. Despite the global economic recession mentioned above, there are positive indicators to a rejuvenated economy as we start the 1991/92 financial year based on the highlights conveyed in the last budget speech.

Operating results

As reported in my last report for the year 1989/90, the Company has continued to face various hardships mostly revolving around the reluctance by oil companies to lift their allocated shares of alcohol and also due to the stagnated price of power alcohol, the main product line, for the last 7 years. I had also reported on the continued cumulative loss position arising mainly from sharp decline in value of Kenya shillings viz-a-viz the Austrian schilling in which the Company's loans are designated. The combined effect of above factors once again resulted in the Company making both substantial operating and cash losses for the year 1990/91. However, the main factor generating these losses is the high interest and finance costs on the Company's foreign loan whose proposed conversion/restructuring, as I reported last year, is still awaiting the Government's decision.

In spite of the poor financial outturn, the Company's physical performance was impressive. During the financial year ended 30.6.91, production of alcohol and yeast recorded an increase of 8% and 19% respectively over the previous year whereas sales increased by 11% and 14% respectively. Overall sales turnover was 23% above the previous year, and for the first time in the history of Kenya, alcohol was exported to Europe and earned the country Shs. 45 million in foreign exchange. A number of other records were achieved in the operational performance during the year.

To enhance processing of its work, a higher degree of accuracy and to maintain dependable reliable management information system for decision making, the Company installed an IBM personal computer on a network operating system. In addition, the production capacity and efficiency of the factory plant continued to be enhanced as new and more efficient equipment replaced old ones, which were bought some 10 years ago.

Future prospects

The Company's continued survival in the wake of the economic problems cited above has depended mainly on the devoted and efficient management team who have endeavoured to keep operating costs low and maintained high efficiency in both operational and financial management of the Company. I am confident that given the required support in the form of remunerative price increase for alcohol and immediate relief from the heavy burden of servicing the external loan, the Company's prospects would appear to be bright. This is more so especially with the breakthrough made into the alcohol export market which should ensure maximum utilization of the plant's capacity. As reported last year also, the Company has plans to penetrate into PTA region for the supply of instant yeast (presently imported into those countries from Europe). The Company is also committed to protecting the environment around which it operates and for this, various stepped-up measures for treating its effluent have been designed and are awaiting full implementation.

Acknowledgements

On behalf of the Board and all the shareholders, I wish to extend sincere appreciation and gratitude to H.E. The President and his Government for the continued support to this energy conservation project. It is noted with appreciation that the Board of Directors, management and all the employees served the Company with total dedication during the year. I take this opportunity to commend and thank them for their efforts and hard work and look forward to the same spirit in future.

W.K. KILELE
NOVEMBER, 1991

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

DIRECTORS' REPORT

The Directors present their report and the accounts for the year ended 30th June, 1991.

ACTIVITY

The company produces Power Alcohol, Bakers Yeast, Rectified/Industrial Spirits and other related products from Sugar Cane Molasses.

RESULTS

Loss for the year carried forward is Shs. **171,468,474.**

This loss includes an exchange loss amounting to Kshs. **98,131,059** arising from the translation of the foreign currency loans at the exchange rate ruling at the balance sheet date. The operating loss before exchange losses was Shs. **73,115,789.**

The Directors do not recommend the payment of a dividend.

DIRECTORS

The Directors since 1st July, 1990 have been:

W.K. Kilele	— Chairman (Alternate: Dr. B.M. Muruli)
M.N. Mehta	- (Alternate: Mr. M.G. Jani)
Mag. Franz Gritsch	- (Alternate: Mr. M.J.A. Emukule)
J.P.N. Simba	
Miss J.D. Otieno	— (Alternate: Dr. B.M. Muruli)
C.D. Mehta (Upto Dec. 1990)	— (Alternate: Mrs. S.M. Mehta)
M.G. Jani (From 1/1/91)	
Industrial and Commercial Development Corporation	

AUDITORS:— The Auditor General (Corporations) will continue in office in accordance with section 29(2) of the Excheque & Audit Act (Cap 412)

By order of the Board.

J.Z. ABUTA
COMPANY SECRETARY

AGRO CHEMICAL AND FOOD COMPANY LTD.

REPORT OF THE AUDITOR-GENERAL (CORPORATIONS) ON THE ACCOUNTS OF
AGRO—CHEMICAL AND FOOD COMPANY LIMITED FOR THE YEAR ENDED
30.6.91

I have examined the accounts of Agro-Chemical and Food Company Limited for the year ended 30th June 1991 in accordance with the provisions of section 29 (2) of the Exchequer and Audit Act, (Cap 412). I have obtained all the information and explanations that I have required for the purpose of the audit. Proper books of account have been kept by the Company and the accounts which have been prepared under the historical cost convention are in agreement therewith and comply with the Companies Act.

Going Concern

During the year ended 30th June 1991 the financial position of the Company continued to deteriorate in that it realised a loss of Kshs. 171,468,474 (1989/90 - Kshs. 100,997,427) out of which Kshs. 98,352,685 related to exchange loss on foreign currency loans. The continued loss position would appear to be as a result of under-utilization of the production capacity due to low up-liftment of power alcohol by Oil Companies, steep increase in cost of inputs and interest charges without a corresponding increase in the price of power alcohol in the last seven (7) years. The loss of Kshs. 171,468,471 thus brought the cumulative losses of the Company to Kshs. 737,417,923 as at 30th June 1991 which have wiped out the shareholders' funds into a negative balance of Kshs 455,232,049 as at that date. The Company has also had a negative working capital of Kshs. 134,581,448 as at the same date. Evidently, the Company was facing serious financial problems. I am however, advised that the Company is still negotiating with Government to take over a loan of Kshs. 812,243,215 as at 30th June 1991 together with the accrued interest of Kshs. 352,070,937 as at the same date. The accounts of the Company have, therefore, been drawn on a going concern basis which is dependent upon the satisfactory outcome of the negotiations between Government and the Company as well as the continued support of the creditors.

A.J. OKOTH
AUDITOR GENERAL (CORPORATIONS)

AGRO—CHEMICAL AND FOOD COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH JUNE, 1991

	NOTES	1991 Sh.	1990 Sh.
TURNOVER		<u>181,600,452</u>	<u>146,866,603</u>
LOSS BEFORE TAXATION	2.	<u>(171,468,474)</u>	<u>(100,997,427)</u>
TAXATION	3	<u>—</u>	<u>—</u>
LOSS FOR THE YEAR	13	<u>(171,468,474)</u>	<u>(100,997,427)</u>

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

BALANCE SHEET 30TH JUNE, 1991.

	NOTES	1991 Sh.	1990 Sh.
FIXED ASSETS	4	<u>314, 749, 641</u>	<u>334, 660, 179</u>
INVESTMENTS (AT COST)	5	<u>6,000</u>	<u>6,000</u>
DEFERRED EXPENDITURE	6	176, 836, 973	135, 980, 862
CURRENT ASSETS			
Stocks and Work in Progress	7	35, 138, 890	43, 160, 550
Debtors	8	60, 376, 959	36, 797, 837
Short - term deposits	9	66, 598, 374	21, 704, 644
Bank and cash balances		<u>340, 974</u>	<u>185, 297</u>
		<u>162, 455, 197</u>	<u>101, 848, 328</u>
CURRENT LIABILITIES			
Creditors	10	278, 559, 551	142, 564, 158
Bank overdraft (secured)	11	<u>18, 477, 094</u>	<u>8, 608, 566</u>
		<u>297, 036, 645</u>	<u>151, 172, 724</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(134, 581, 448)</u>	<u>(49, 324, 396)</u>
		<u>357, 011, 166</u>	<u>421, 322, 645</u>
Financed By;			
SHARE CAPITAL	12	60, 000, 000	60, 000, 000
RESERVES	13	<u>(515, 232, 049)</u>	<u>(343, 634, 395)</u>
SHAREHOLDERS' FUND		<u>(455, 232, 049)</u>	<u>(283, 634, 395)</u>
LOANS	11	<u>812, 243, 215</u>	<u>704, 957, 040</u>
		<u>357, 011, 166</u>	<u>421, 322, 645</u>

The Accounts on pages 7 to 14 were approved by the Board of Directors on 9th October and were signed on its behalf by:

)
 Mr. W.K. Kilele)
 Mr. D.K. Mwangi) **DIRECTORS**
)
)
)

AGRO - CHEMICAL AND FOOD COMPANY LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR

ENDED 30TH JUNE, 1991.

	1991 Shs.	1990 Shs.
Loss before taxation	(171, 468, 474)	(100, 997, 427)
Adjustment for items not involving the movement of funds:		
Depreciation	37, 508, 232	35, 994, 032
Pre-production revenue expenses written off	1, 594, 114	2, 391, 168,
Exchange loss on foreign currency loan	64, 835, 950	22, 492, 023
Profit on sale of fixed assets	<u>(132, 363)</u>	<u>(470, 987)</u>
Funds (absorbed)/generated by operation	(67, 662, 541)	(40, 591, 191)
Proceeds on sale of fixed assets	<u>70, 990</u>	<u>170, 021</u>
APPLICATION OF FUNDS	<u><u>(67, 591, 551)</u></u>	<u><u>(40, 421, 170)</u></u>
Additions to fixed assets	17, 665, 501	11, 666, 153
Loans repaid	<u>—</u>	<u>2, 527, 779</u>
	<u>17, 665, 501</u>	<u>14, 193, 932</u>
MOVEMENT IN WORKING CAPITAL		
Increase/(decrease) in stocks and work in progress	(8, 021, 660)	1, 072, 687
(Decrease)/increase in debtors	23, 579, 122	(4, 261, 501)
Decrease/(increase) in creditors	<u>(135, 995, 393)</u>	<u>(80, 937, 451)</u>
	<u><u>(120, 437, 931)</u></u>	<u><u>(84, 126, 265)</u></u>
(DECREASE)/INCREASE IN NET LIQUID FUNDS	<u><u>35, 180, 879</u></u>	<u><u>29, 511, 163</u></u>
Represented by:		
(Decrease)/increase in bank, cash & deposits balances	45, 049, 407	21, 726, 500
Decrease/(increase) in bank overdraft	<u>(9, 868, 528)</u>	<u>7, 784, 663</u>
	<u><u>35, 180, 879</u></u>	<u><u>29, 511, 163</u></u>

AGRO—CHEMICAL AND FOOD COMPANY LIMITED.

NOTES TO THE ACCOUNTS

ACCOUNTING POLICIES

(a) BASIS OF ACCOUNTING

The company prepares its accounts on the historical cost basis of accounting, modified to include the revaluation of certain fixed assets.

(b) PRE - PRODUCTION REVENUE EXPENSES

Expenses of revenue nature in the pre-production period are written off in eight equal annual instalments.

(c) TURNOVER

Turnover represents the value of alcohol and yeast invoiced to customers.

(d) DEPRECIATION

Depreciation is calculated to write off the cost or valuation of fixed assets in equal annual instalments at the following rates;-

Long leashold land	1.05%
Buildings	2.5%
Plant and Machinery	8.57% for revalued assets & 6.67% for additions thereafter.
Motor vehicles	25%
Furniture and fixtures	15% for revalued assets & 10% for additions thereafter.

(e) Foreign currencies

Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at balance sheet date. Transactions during the year are translated at the rate ruling at the date of the transaction. Gains or losses on exchange arising from accrued interest and portion of foreign loan due are included in the profit and loss account. However, exchange losses arising from foreign loan not yet due are deferred to be charged in future years.

NOTES TO THE ACCOUNTS (CONTD.)

- (f) Stocks and work in progress are valued at the lower of cost and net realisable value. Cost comprises purchase cost together with labour, transport and relevant production overheads, where applicable.

	1991	1990
2. LOSS BEFORE TAXATION		
The loss before taxation is arrived at after charging:		
Depreciation	37, 508, 232	35, 994, 032
Auditor's remuneration & expenses	150, 000	137, 500
Interest payable/(receivable) on:		
Loans	87, 466, 949	57, 954, 207
Bank Overdraft	2, 733, 518	1, 466, 756
Other	399, 397	—
Pre-production revenue expenses written off	1, 594, 114	2, 391, 168
Loss on exchange	<u>98, 352, 685</u>	<u>50, 655, 720</u>

3. TAXATION

There is no liability for taxation. At 30th June, 1991, there were losses available for carry forward of approximately Sh. 390,000,000 Shs. (1990 - 350,000,000).

AGRO—CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTD.)

FIXED ASSETS

	Long Leasehold Land and Buildings	Plant and Mechinery	Capital work in progress	Vehicle Furniture and Fixtures	Total
	Sh.	Sh.	Sh.	Sh.	Sh.
COST OR VALUATION					
At 30th June, 1990	74,883,375	384,156,921	8,873,367	8,935,447	476,849,110
Additions/Adjustments	443,345	888,108	14,436,948	1,897,100	17,665,501
Transfers	1,030,366	17,845,801	(18,876,167)	—	—
Disposals	—	—	—	(270,818)	(270,818)
At 30th June, 1991	<u>76,357,086</u>	<u>402,890,830</u>	<u>4,434,148</u>	<u>10,561,729</u>	<u>494,243,793</u>
DEPRECIATION					
At 30th June, 1990	8,056,096	128,872,373	—	5,260,462	142,188,931
Eliminated in respect of disposals	—	—	—	(203,011)	(203,011)
Charge for the year	2,061,494	33,832,473	—	1,614,265	37,508,232
	<u>10,117,590</u>	<u>162,704,846</u>	<u>—</u>	<u>6,671,716</u>	<u>179,494,152</u>
NET BOOK VALUE					
At 30th June, 1991	<u>66,239,496</u>	<u>240,185,984</u>	<u>4,434,148</u>	<u>3,890,013</u>	<u>314,749,641</u>
At 30th June 1990:	<u>66,827,279</u>	<u>255,284,548</u>	<u>8,873,367</u>	<u>3,674,985</u>	<u>334,660,179</u>

AGRO—CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTD.)

	1991 SH.	1990 SH.
5. INVESTMENT		
Cost of 300 shares 20/= each in K.G.G.C.U. Limited	6,000	6,000
6. DEFERRED EXPENDITURE		
(a) Pre-production revenue expenses at 1st July	1,594,114	3,985,282
Write off for the year at 30th June	<u>1,594,114</u>	<u>(2,391,168)</u>
	—	1,594,114
(b) Losses on translation of foreign currency loans outstanding	<u>176,836,973</u>	<u>134,386,748</u>
TOTAL	<u><u>176,836,973</u></u>	<u><u>135,980,862</u></u>
7. STOCK AND WORK IN PROGRESS		
Goods in transit	200,660	219,767
Raw materials and spares	*24,607,252	24,325,056
Work in progress	818,496	1,106,067
Finished products	<u>9,512,482</u>	<u>17,509,660</u>
	<u>35,138,890</u>	<u>43,160,550</u>
8. DEBTORS		
Trade	53,741,087	31,496,037
Pre-payments	560,524	1,954,297
Creditors debit balances	1,130,577	319,277
Others	<u>4,944,771</u>	<u>3,028,226</u>
	<u>60,376,959</u>	<u>36,797,837</u>
9. SHORT TERM DEPOSITS		
National Bank of Kenya Call deposit	—	10,000,000
Barclays Bank of Kenya fixed deposit	50,000,000	—
Barclays Bank of Kenya Call deposit	13,714,800	11,296,221
Interest receivable on fixed deposits	1,900,274	—
Interest receivable on call deposits	<u>983,300</u>	<u>408,423</u>
	<u>66,598,374</u>	<u>21,704,644</u>
10. CREDITORS		
Trade Creditors	11,130,898	6,311,046
Others	<u>267,428,653</u>	<u>131,501,805</u>
	<u>278,559,551</u>	<u>137,812,851</u>

* Includes Ksh 4,412,677 considered to be slow moving stocks. Identification exercise is being carried out to determine any obsolete stock to be written off in future after obtaining necessary approval.

AGRO—CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTD.)

11. LOANS

	Interest rate %	Repayable in semi-annual instalments by	1991 Sh.	1990 Sh.
Girozentrale Bank - guaranteed by the government of Kenya	variable	1997	<u>812,243,215*</u>	<u>704,957,040</u>

12. SHARE CAPITAL

Authorised

3,750,000 ordinary shares of Shs. 20/—

75,000,000 75,000,000

Issued and fully paid

3,000,000 ordinary shares of shs. 20/-

60,000,000 60,000,000

NOTE: * Included in this figure is an amount of Ksh. 268,512,361 being repayment due to Girozentral as at 30th June, 1991 not yet paid in view of conversion arrangement awaited.

AGRO—CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTD.)

13. RESERVES

	CAPITAL RESERVE SH.	REVENUE RESERVE SH.	TOTAL SH.
At 30th June, 1990	222,315,054	(561,198,142)	(338,883,088)
Prior Year Adjustments*	—	(4,751,307)	(4,751,307)
Re-stated balance as at 30th June, 1990	222,315,054	(565,949,449)	(343,634,395)
Capital reserve removed in respect of Fixed assets sold	(129,180)	—	(129,180)
Loss for the year	—	(171,468,474)	(171,468,474)
At 30th June, 1991	222,185,874	(737,417,923)	(515,232,049)

14. CAPITAL COMMITMENTS

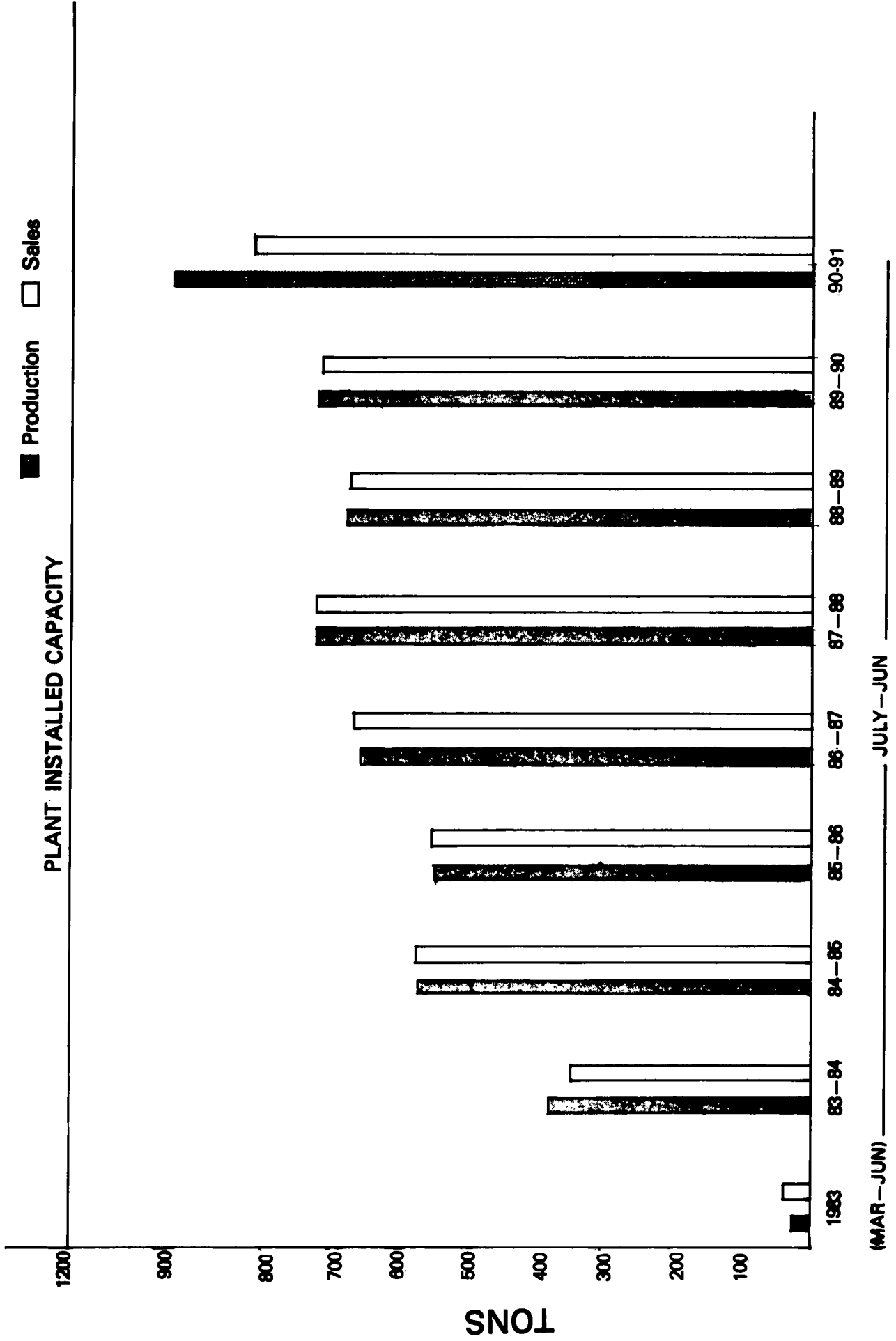
	1991 Sh.	1991 Sh.
Contracted by not provided for	1,991,048	1,614,671
Authorised but not contracted for		
1990/91	9,958,982	4,214,000
1991/92	44,985,000	55,150,000
	54,943,982	59,364,000

15. CONTINGENT LIABILITY

There is a contingent liability for a total of Shs. 3,849,400 (1990— Shs. 104,300) in respect of bank letters of credit issued and outstanding as at 30th June, 1991.

* Prior year adjustment represents an additional interest on foreign loan raised by Girozentrale Und. Bank, Austria, retrospectively for the year 1989/90 in their statement of December, 1990.

PRODUCTION AND SALES -- YEAST



PRODUCTION AND SALES — ALCOHOL

