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agro-chemical and food company limited

ANNUAL REPORT & ACCOUNTS

1997/98

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ACFC

AGRO - CHEMICAL AND FOOD COMPANY LIMITED

REPORT AND ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 1998

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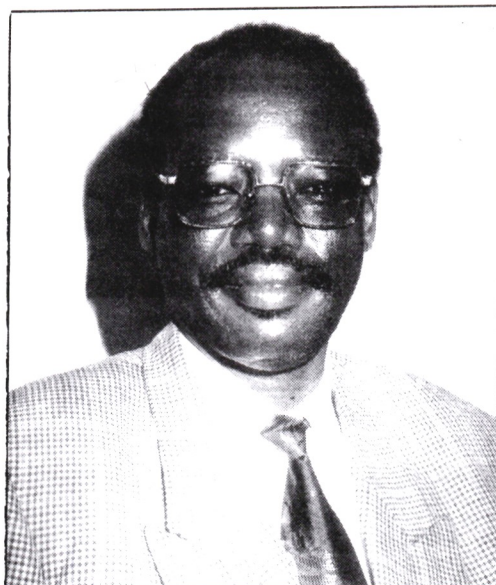
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AGRO-CHEMICAL AND FOOD COMPANY LIMITED
CHAIRMAN'S REPORT FOR THE YEAR TO 30TH JUNE 1998



I am pleased to present the ACFC Annual Report and audited accounts for the year ended 30th June, 1998. This is my first report since I took over the chairmanship of ACFC in September 1998 after the sad demise of the former Chairman, the late Dr. Walter Kilele. I wish on behalf of the entire Board to register our tributes for his efforts and the solid foundation he laid for ACFC during the 15 years he was Chairman.

As we are all aware, the year under review saw a steep drop in economic growth. ACFC was not spared either. Going by the previous report however, some of the problems we faced in the previous year were solved through well laid strategies by our team of management. The inadequate molasses supply which affected our production was solved and I am happy to report that we achieved a consistent supply of molasses from the sugar industries and it is my wish that this trend continues.

The purchase of diesel generator sets also enabled the factory to run uninterrupted unlike the previous years which saw frequent shutdowns due to power failures. I must also mention that the year under review also saw the commissioning of the long awaited Effluent Treatment Plant. This has not only become a cost saver in terms of fuel oil consumption but also a break through in environment conservation. This is the first plant of its kind in entire East African region and has been established with the latest technology.

On the market front however, our exports continued realising low returns due to global economic trends. Our local sales of spirits dropped significantly due to factors beyond our control.

In view of this we must set our priorities right and struggle for survival in this hard times.

SUMMARISED OPERATING RESULTS

Out of 18.2 million litres of alcohol sold, approximately 9.2 million litres were exported to Europe and earned K.Shs. 188.9 million in foreign exchange during 1997/98, bringing the cumulative export earnings to over K.Shs. 1461 million. Our locals sales of spirits and yeast equally yielded impressive returns despite the stiff competition emerging from the liberalised market.

THE FINANCIAL HIGHLIGHTS

1997/98			1996/97		
	BUDGET	ACTUAL	% BUDGET	BUDGET	ACTUAL
PRODUCTION:					
Alcohol (000 Lts)	18,000	18,927	106%	18,000	15,919
Yeast (Tonnes)	1,200	1,101	91%	1,200	1,044
SALES:					
Alcohol (000 Lts)	18,000	18,227	102%	18,000	15,106
Yeast (Tonnes)	1,200	1,065	84%	1,200	1,035
Gross Revenue	Kshs.570 M	605 M	106%	599 M	512 M
Operating Profit before interest	Kshs.57 M	118 M	207%	86 M	52 M

The total Sales turnover for the year under review was K.Shs. 575.1 million as compared to K.Shs. 478 million in the previous year. The operating profit resulting before the loan interest was K.Shs. 117.7 million compared to K.Shs. 52.3 million in 1996/97. This was 207% of the budget. However, due to exchange loss arising from translation of our foreign currency loans, the company registered an overall net loss of K.Shs. 321.4 compared to a profit of K.Shs. 81.4 million in the previous year. The persistent burden of heavy loans we have continued to bear has remained difficult to service. Our efforts to approach the GOK in finding a lasting solution would continue.

FUTURE PROSPECTS

As has been the Board's wish to maximise the plant's operational efficiency and increased productivity, there is a need to exercise further stringent cost control measures. Our survival will solely depend on the quality of our products. With the Comesa regional market getting open by 31st October, year 2000, we need to intensify a little more for us to keep afloat. The aging plant should be modernised in order to sustain full capacity operations without much strain. This would require substantial capital expenditure to be incurred.

I am happy to learn that some positive move has been taken to implement the plans geared towards this objective. The completion of the first phase of instrumentation has already started showing good results. The need to update the entire staff on computerization definitely becomes a concern to all of us. This will in the long run not only result into maximised productivity but also efficiency. Other areas like yeast production should be given much attention and the findings on the possibility of wet yeast production and sales in the local market be given priority. With the procurement of new machines, it is true we shall improve both quality and quantity of our yeast to compete in the liberalised market.

ACKNOWLEDGEMENTS

I take pride in thanking all our employees for having strived to achieve the stated results despite the economic difficulties realised all around the nation and beyond. Their concerted efforts brought about the positive realizations. This spirit has to continue. On behalf of the Board, I wish to convey our sincere gratitude to all employees and management. I also wish to thank all my colleagues on the Board for their tireless devotion and valued guidance which enabled the company steer through the difficult times. May I also thank our parent Ministry of Agriculture, Kenya Sugar Authority, the Treasury, all sugar companies and our esteemed customers and vendors for all the support and co-operation given during the past year.

JOB SIROR
CHAIRMAN.

August, 1999

AGRO - CHEMICAL AND FOOD COMPANY LIMITED

DIRECTORS' REPORT

The Directors present their report and the accounts for the year ended 30th June 1998.

Principal Activities:

The Company produces power alcohol, baker's yeast, rectified and methylated spirit and other related products from sugar cane molasses for both local and export market.

Results:

During the year the Company produced 18.9 million litres of alcohol and spirits and 1101 tons of yeast and realized a turnover of Kshs.575 million (1996/97: 478 million). The operating loss before exchange gains/(losses) was Kshs.73,299,644 which includes interest on foreign loans of Kshs.191 million (1996/97: 218 million). The loss for the year carried forward is Kshs.321,354,575. This profit is after considering an exchange loss amounting to Kshs.248,054,931 arising from the translation of the foreign currency loans at the exchange rate ruling at the balance sheet date.

Dividends

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

Auditors:

The Auditor General (Corporations) will continue in office in accordance with section 29 (2) of the Exchequer and Audit Act (Cap. 412).

Directors as at 30th June 1998

Dr. W.K. Kilele - Chairman

Mr. M.N. Mehta - (Alternate: Mr. Jay Mehta)

Dr. Friedrich Steinleitner - (Alternate: Mr M.J.A. Emukule)

Mr. Edgar Manasseh - (Alternate: Mr. W. Shimanyula)

Mr. Mr. B. Muruli - (Alternate: Mrs Janet Okanga)

Mr. S.C. Sharma

Industrial and Commercial Development Corporation - (Alternate : Mr. S. K. Maina)

Managing Agent and Registered Office

Mehta Group Management Limited

Jeevanbharati Building, 7th Floor

P.O. Box 41175

NAIROBI

Advocates:

Ombija & Co. Advocates

P.O. Box 77

KISUMU

Robson Harris & Co. Advocates

P.O. Box 30423

NAIROBI

Bankers:

National Bank of Kenya Limited

Barclays Bank of Kenya Limited


Chief Officers:

Resident Director & Chief Executive : Mr. O.P. Narang

Dy. Chief Executive (Finance): Mr. J.Z. Abuta

Dy. Chief Executive (Works) : Mr. A.O. Gumo

By order of the Board



J.Z. ABUTA

COMPANY SECRETARY

**REPORT OF THE AUDITOR-GENERAL (CORPORATIONS) ON THE ACCOUNTS OF
AGRO-CHEMICAL AND FOOD COMPANY LIMITED
FOR THE YEAR ENDED 30TH JUNE 1998**

I have examined the accounts of Agro-Chemical and Food Company Limited for year ended 30 June 1998 in accordance with Section 29 (2) of the Exchequer and Audit Act, (Cap 412). I have obtained all the information and explanations that I required for the purpose of the audit. Proper books of account have been kept by the Company and the accounts are in agreement therewith and comply with the Companies Act, (Cap 486).

Except for the reservations set out herebelow, in my opinion, the accounts when read together with the notes thereon, present a true and fair view of the Company's financial state of affairs as at 30 June 1998 and of its loss and cash flow for the year then ended.

1. FINANCIAL POSITION

The Company results deteriorated during the year under review as it realised a loss of K.Shs. 321,354,575 (1996/97 a profit of K.Shs. 81,350,758) thereby bringing the adjusted accumulated losses to K.Shs. 3,239,699,840 as at 30 June 1998 (1996/97 - K.Shs. 2,853,314,718). The Company was unable to meet its loan obligations as they fell due. The Balance Sheet reflects a negative working capital of K.Shs. 610,943,739 (1996/97 a negative of K.Shs. 458,187,608). The Company has attributed the adverse financial position to inadequate sales volume to absorb interest on loans which amounted to K.Shs. 191,034,697 in 1997/98 and K.Shs. 218,543,533 in 1996/97. In addition the Company has continued to suffer exchange losses on the loans due to the depreciation of Kenyan shilling against foreign currencies. The accounts have therefore been drawn on a going concern basis on the assumption that the Company will continue to enjoy support from the Government, lenders and creditors.

2. SOLE DISTRIBUTORSHIP OF YEAST

2.1. It was noted that the Company appointed a distribution firm as a sole distributor of active dry yeast on 31 October 1988 and the contract agreement has been renewed thereafter every five years. Agro-Chemical and Food Company Limited has explained that the identification and enlisting of this firm as a sole distributor of the Company's yeast was not done by competitive tender but through informal contacts. Consequently, I am unable to confirm whether or not the Company obtained the best deal for distributorship of its yeast.

2.2 Further examination revealed that contrary to the Company's contention that the firm was to be the sole distributor, the majority of its appointed sub-distributors have been dealing direct with the Agro-Chemical and Food Company by collecting yeast at their expense but the firm continued to enjoy the same commission as if it distributed the yeast thus defeating the Company's argument that the firm was selected for convenience of offering sole distributorship.

I am, therefore, unable to confirm the propriety of the commission paid to this firm in view of the contradiction of its role.

3. EFFLUENT TREATMENT PLANT

As mentioned in the previous year's report, the uncompleted Effluent Treatment Plant Project whose contract sum was originally K.Shs. 52,142,492 in 1993 had cost K.Shs. 124,325,802 as at 30 June 1998, thus occasioning an excess expenditure of K.Shs. 72,183,310 or 138% over the original contract sum. The Company has not given satisfactory reasons for excess expenditure of K.Shs. 72,183,310 incurred over and above the original contract sum. Further, although the project is still incomplete, I am unable to obtain from the Company the confirmed cost of the project to completion.

4. DEBTORS

Included in the debtors figure of K.Shs. 99,909,033 is an amount of K.Shs. 13,399,890.05 collected and retained by the Company's appointed firm of advocates instead of being remitted to Agro-Chemical and Food Company Limited. The amounts in the total sum of K.Shs. 13,399,890.05 were collected from three firms owing K.Shs. 4,255,188.70, K.Shs. 7,269,098.95 and K.Shs. 1,875,602.40 respectively. The firm of advocates failed to remit the above amounts to Agro-Chemical and Food Company Limited despite the meeting held on 2 February 1998 where the firm undertook to pay K.Shs. 4,000,000 on 3 February 1998 and balance on 16 February 1998. As at the date of this report no payment had been received.



W. K. KEMEI
AUDITOR-GENERAL (CORPORATIONS)

9 June 1999

AGRO - CHEMICAL AND FOOD COMPANY LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH JUNE 1998**

	1998 SHS	1997 SHS
TURNOVER	575,078,349	477,904,374
	=====	=====
PROFIT(LOSS) BEFORE TAXATION TAXATION**	(321,354,575)	81,350,758
	---	---
	=====	=====
PROFIT(LOSS) FOR THE YEAR	(321,354,575)	81,350,758
	=====	=====

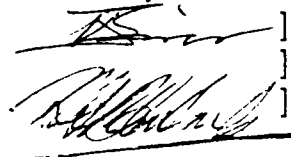
**See Note 3

AGRO - CHEMICAL AND FOOD COMPANY LIMITED

BALANCE SHEET 30TH JUNE 1998

	NOTES	1998 SHS	1997 SHS
FIXED ASSETS	4	1,548,933,791	1,553,638,414
INVESTMENT (AT COST)	5	6,000	6,000
CURRENT ASSETS			
Stock and work in progress	6	102,630,377	93,584,275
Debtors	7	99,909,033	90,985,031
Short-term deposits	8	114,423,085	112,636,993
Bank and Cash Balances		10,219,623	225,671
		327,182,118	297,431,970
CURRENT LIABILITIES			
Creditors	9	938,125,857	730,548,289
Bank Overdraft (Secured)		---	25,071,289
		938,125,857	755,619,578
NET CURRENT ASSETS/(LIABILITIES)		(610,943,739)	(458,187,608)
		937,996,052	1,095,456,806
Financed by:			
Share Capital	11	60,000,000	60,000,000
Reserves	12	(1,702,410,701)	(1,315,141,354)
Shareholders' Fund		(1,642,410,701)	(1,255,141,354)
Loans	10	2,580,406,753	2,350,598,160
		937,996,052	1,095,456,806

The Accounts on pages 5 to 13 were approved by the Board of Directors on 13 October 1998 and were signed on its behalf by:

 Directors

AGRO - CHEMICAL AND FOOD COMPANY LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE 1998

	1998 KSHS.	1997 KSHS.
	-----	-----
Net Cash Inflow from operating Activities:		

Net Profit/(Loss) before taxation	(321,354,575)	81,350,758
Adjustment for items not involving movement of funds:		
Depreciation	73,569,363	67,879,399
Prior Year Adjustment to reserves	(65,914,772)	730,939
Exchange (gain)/loss on foreign loans	92,386,498	(207,595,424)
Profit on sale of fixed assets.	(1,414,588)	(3,574,752)
	-----	-----
Net Operating Profit/(Loss) before changes in working capital:	(90,898,530)	(61,209,080)
Changes in: -Stock	(9,046,102)	(17,135,316)
-Debtors	(8,924,002)	(20,850,152)
-Creditors	207,577,568	175,644,613
	-----	-----
(a) Net Cash Flow from operating activities	98,708,934	76,450,065
Cash flow from investing activities:		
Purchase of assets	(52,322,506)	(55,733,886)
Proceeds from sale of fixed assets	669,000	1,234,500
	-----	-----
(b) Net Cash flow from investing activities	(51,653,506)	(54,499,386)
(c) Cash Flow from Financing activities:		
Repayment of Loans	(10,204,095)	(39,885,986)
	-----	-----
Net Increase/(decrease) in cash and cash equivalents(a+b+c)	36,851,333	(17,935,307)
Cash and cash equivalent at the beginning of the year	87,791,375	105,726,682
	-----	-----
Cash and cash equivalent at the end of the Year	124,642,708	87,791,375
	-----	-----

AGRO - CHEMICAL AND FOOD COMPANY LIMITED

1. 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) TURNOVER

Turnover represents the value of alcohol and yeast invoiced to customers net of various taxes and levies.

c) DEPRECIATION

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

Long leasehold land	1.05%
Building	2.5%
Plant and Machinery	4.0%
Motor Vehicles	25%
Furniture and fixtures	15% for revalued assets and 10% for additions thereafter.

Assets are depreciated in the year of acquisition, and no provision for depreciation is provided for in the year of disposal. Fixed assets were revalued in 1993 other than furniture and fixtures which were revalued last in 1986.

d) FOREIGN CURRENCIES

Assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rates of exchange at balance sheet date. Transactions during the year are translated at the rate of transaction. Gains or losses on exchange arising from accrued interest and foreign loans are included in the profit and loss account.

NOTES TO ACCOUNTS (CONTINUED)

(e) STOCKS:

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

2. PROFIT/(LOSS) BEFORE TAXATION

	1998	1997
	SHS.	SHS.
Loss before taxation is arrived at after charging:		
Depreciation	73,569,363	67,879,399
Auditors' remuneration & Exp.	350,000	250,000
Directors' " " " "	2,697,918	324,890
Interest payable/(received) On:		
Loans	191,034,697	218,543,533
Bank overdraft	1,187,849	1,815,396
Deposits	(24,855,150)	(26,844,140)
Others	(2,451,824)	(111,020)
(Gain)/loss on exchange	248,054,931	(247,601,196)
	<u>248,054,931</u>	<u>(247,601,196)</u>

3. TAXATION

Current tax rate is 32.50% on adjusted profit. There is no tax liability in view of losses available for carry forward of approximately shs. 1505 million (1997: 1385 million).

AGRO - CHEMICAL AND FOOD COMPANY LIMITED

4. FIXED ASSETS

	Land, Housing & Factory Kshs.	Plant and Machinery Kshs.	Work in Progress Kshs.	Vehicle Furniture and Fixtures Kshs.	Total Kshs.
COST OR VALUATION					
At 30th June 1997	256,005,470	1,391,920,912	135,127,832	35,818,452	1,818,872,666
Additions	2,362,650	33,871,734	25,662,301	6,782,242	68,678,927
Disposals				(936,297)	(936,297)
Transfers	2,106,483	131,122,074	(133,228,557)	0	0
At 30th June 1998	<u>260,474,603</u>	<u>1,556,914,720</u>	<u>27,561,576</u>	<u>41,664,397</u>	<u>1,886,615,296</u>
DEPRECIATION					
At 30th June 1997	24,530,744	217,726,005	---	22,977,503	265,234,252
Eliminated in respect of disposals				(1,122,110)	(1,122,110)
Charge for the July 1997- June'1998	6,282,848	62,265,603	---	5,020,912	73,569,363
At 30th June 1998	<u>30,813,592</u>	<u>279,991,608</u>	<u>---</u>	<u>26,876,305</u>	<u>337,681,505</u>
NET BOOK VALUE					
At 30th June 1998	229,661,011	1,276,923,112	27,561,576	14,788,092	1,548,933,791
At 30TH June 1997	<u>231,474,726</u>	<u>1,174,194,907</u>	<u>135,127,832</u>	<u>12,840,949</u>	<u>1,553,638,414</u>

AGRO - CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS CONTINUED

	1998 SHS.	1997 SHS.
5. INVESTMENT		
Cost of 300 shares 20/= each in K.G.G.C.U. Limited	6,000	6,000
6. STOCK AND WORK IN PROGRESS		
Goods in transit	2,765,728	1,468,537
Raw Materials and spares	59,689,841	62,814,619
Work in progress	954,062	953,397
Finished Products	39,220,746	28,347,722
	-----	-----
	102,630,377	93,584,275
	=====	=====
7. DEBTORS		
Trade	38,596,416	56,954,813
Less Prov. for doubtful debts	(3,342,405)	(16,712,295)
Pre-payments	7,344,375	6,449,207
Creditors debit balances	2,655,076	1,521,062
Others	54,655,571	42,772,244
	-----	-----
	99,909,033	90,985,031
	=====	=====
8. SHORT TERM DEPOSITS		
National Bank of Kenya Limited		
Fixed Deposit	111,000,000	110,000,000
Interest receivable	3,423,085	2,636,993
	-----	-----
	114,423,085	112,636,993
	=====	=====

NOTES TO ACCOUNTS (CONTD.)

	1998 <u>KSHS</u>	1997 <u>KSHS</u>
9. CREDITORS		
Trade Creditors	28,883,915	44,211,677
Other Creditors*	<u>909,241,942</u>	<u>686,336,612</u>
	<u>938,125,857</u>	<u>730,548,289</u>

*Includes interest accrued on foreign loan of Kshs.842,180,998 (1996/97: Kshs.600,237,469).

10. LOANS**

	Interest Rates	1998	1997
<u>Lender:</u>		<u>KSHS</u>	<u>KSHS</u>
Giro-Credit Bank guaranteed by GOK	Variable	-	342,067,634
GOK ON-LENT	Variable	2,079,459,256	1,905,515,776
Giro-Credit Bank paid by GOK	-	<u>500,947,497</u>	<u>103,014,750</u>
		<u>2,580,406,753</u>	<u>2,350,598,160</u>

**Foreign loans were restructured as at 31st December 1993 i.e Giro-Credit Bank loan Aust. Sch. 125,374,976.57 repayable semi-annually upto December 1997 and GOK converted to US\$34,960,000= payable in fourteen semi-annual instalments upto 2002. Aus. Sch. 98,273,477.42 i.e Kshs. 500,947,497 in respect of Giro-Credit long term loan was paid ACFC's behalf by GOK in 1995/96 and 1997/98.

11. 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

AGRO - CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTD.)

12. RESERVES

	CAPITAL RESERVE SHS.	REVENUE RESERVE SHS.	TOTAL SHS.
At 30th June 1997	1,538,173,364	(2,853,314,718)	(1,315,141,354)
Prior Year Adjustment (Note 15)	(884,225)	(65,030,547)	(65,914,772)
Re-state of balance as at 30.6.97	1,537,289,139	(2,918,345,265)	(1,381,056,126)
Loss for the year at 30.6.98	-	(321,354,575)	(321,354,575)
	1,537,289,139	(3,239,699,840)	(1,702,410,701)

13. CAPITAL COMMITMENTS

	1998 SHS.	1997 SHS.
Contracted but not provided for	38,789,587	26,655,000
Authorised but not contracted for	48,028,413	68,476,000
	-	-
	86,818,000	95,131,000

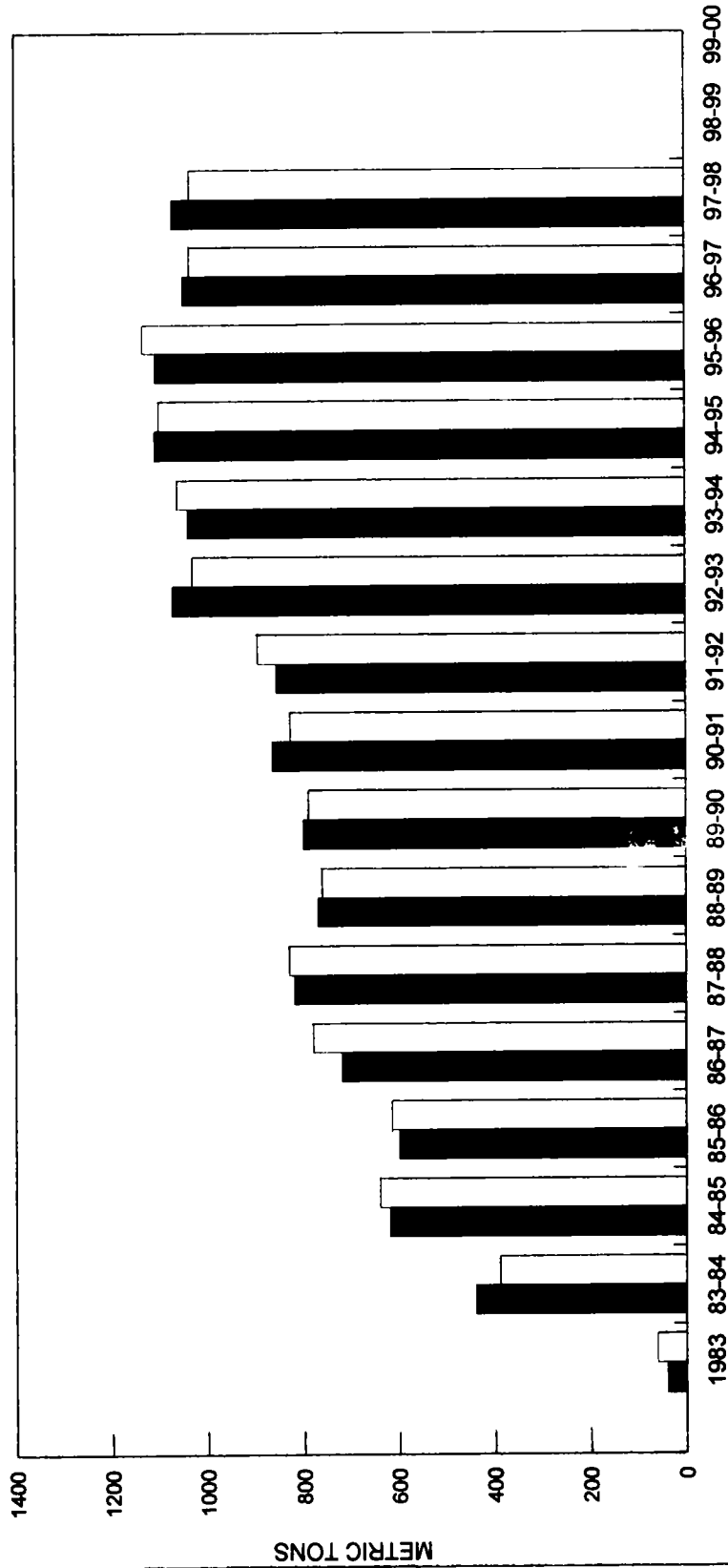
14. CONTINGENT LIABILITY

There was a contingent liability of Kshs.2,526,800(1997 Kshs.5,025,500) in respect of bank letters of credit issued and outstanding as at 30.6.98

15. Prior year adjustment of Kshs.65,914,772 represents the following:

	KSHS.
i) Loss arising on sale of fixed assets revalued in 1996.	(884,225)
ii) Provision for bad and doubtful debts for oil companies paid (portion)	13,369,890
iii) Provision for withholding tax refundable reversed	(1,741,984)
iv) Expenses for previous years adopted in current year	(2,845,358)
v) Exchange loss arising as a result of exchange rate applied by GOK at the time of making payment on our behalf and rate used as at 30.6.97	(73,813,095)
	(65,914,772)

ACFC LTD-PRODUCTION AND SALES OF A. D. Y., 1983 TO DATE



■ PRODUCTION □ SALES

ACFC LTD-PRODUCTION AND SALES OF ALCOHOL, 1983-98

