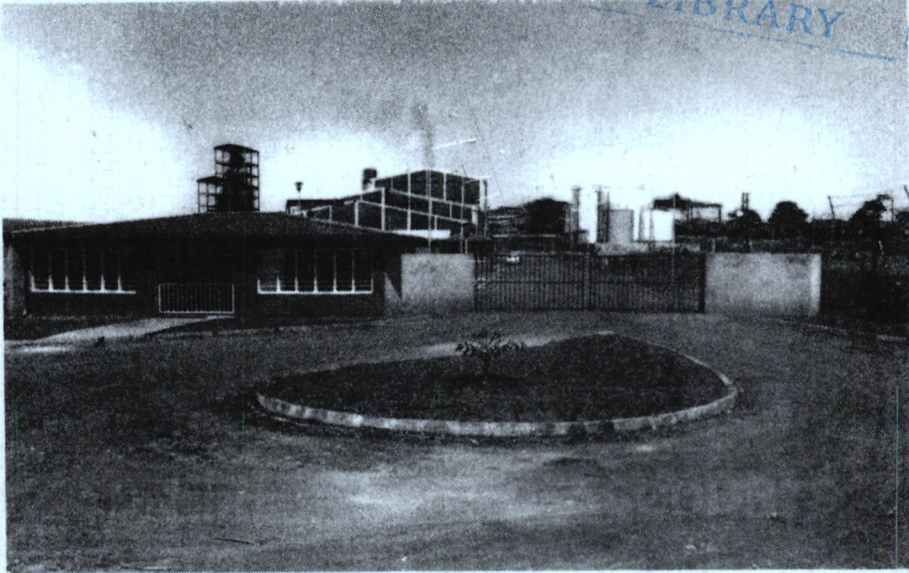




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AGRO - CHEMICAL AND FOOD COMPANY LIMITED

REPORT AND ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 1994

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AGRO-CHEMICAL AND FOOD COMPANY LIMITED
CHAIRMAN'S REPORT FOR THE YEAR ENDED
30TH JUNE 1994



I am pleased to report that ACFC had yet another successful year in terms of its operating performance inspite of the difficult economic conditions facing the economy in general and the manufacturing sector in particular. Alcohol production achieved 88% of Budget whereas sales achieved 94% of budget. Yeast production and sales were almost within budget. Alcohol export earnings were 70% over the previous year realizing Shs. 260 million in foreign exchange for the country.

Operating Results

The year's operating results are summarized as under:—

	1993/94			1992/93	
	<u>Budget</u>	<u>Actual</u>	<u>% of Budget</u>	<u>Actual</u>	<u>% of Budget</u>
<u>Production:</u>					
Alcohol (000s Lts.)	16,000	14,158	88%	13,289	95%
Yeast (tonnes)	1,104	1,040	94%	1,072	125%
<u>Sales:</u>					
Acohol (000s Lts)	16,000	15,059	94%	13,529	97%
Yeast (tonnes)	1,104	1,061	96%	1,030	120%
<u>Gross Revenue (Kshs)</u>		444.7 Million		308.1 Million	
<u>Operating Loss (Kshs)</u>		(278.5) Million		(80.3) Million	

Out of the 15 million litres of alcohol sold, approximately 13 million litres were exported to Europe during the year compared to 11 Million litres in the previous year. The contract for export expires in June 1995 and negotiations are in progress for its renewal together with the offshore tank storage arrangements with M/s Caltex (K) Ltd. The Company has had to divert its production fully to crude industrial alcohol for export and methylated and rectified spirits for the local market in view of reluctance by oil companies to market "power alcohol" for blending with gasolene as reported last year. Capacity utilization in the alcohol plant was approximately 79% and approximately 86% in the yeast section. The low capacity utilization was due to inadequate supply of molasses from sugar factories some of which are exporting substantial portion of their molasses at a higher export price than ACFC can afford. However recent high level consultations with Ministry of Agriculture, Kenya Sugar Authority and sugar companies management on supply of molasses is gradually yielding positive implications. However the projected 1994/95 production will still be low due to inadequate supplies of molasses in earlier part of 1994/95 financial year.

Financial Results

Inspte of the overall impressive physical performance achieved, the Company continued to suffer heavy operating losses due partly to the rapid escalation of input costs expecially after the multiple currency devaluation experienced during 1993 and also due to the heavy interest costs on its foreign loan resulting from the devaluation of the Kenya Shilling against the hard currencies. Resultantly, the operating loss was Shs. 278.5 (92/93:80.3 million) after charging loan interest of Shs. 337 million (1992/93: 174 million) but before considering a favourable exchange gain of Shs. 132.5 million. The loan is designated in Austrian Schilling whose change rate viz-a-viz Kenya Shillings averaged Kshs. 5.05 compared to Shs. 5.50 in June 1995. The government has recently converted a substantial part of the outstanding loan as at 31.12.93 of approximately US\$35 million to be serviced

locally whereas the balance of approximately Aus. Sch. 150 million (Kshs. 600 million) is to be repaid to Giro Credit Bank, Austria directly. However, in view of the heavy financial burden of these loans, the Company has once again requested the Government to re-schedule the repayment to be within the Company's ability to pay from her diminishing cash flow generation due to falling export realization arising from the recent strengthening of the Kenya Shilling.

Efficiency Improvement & Marketing Strategy

In order to mitigate the adverse financial outturn and therefore continue to sustain the Company's operations, the management continues to lay emphasis on strict cost and quality control, selective capital spending, staff training, research and other measures designed to increase capacity utilization, reduction of operating costs and improvement of overall efficiency. In order to penetrate further into the local market and renew public awareness of its products and operations, the Company continues to participate and demonstrate at both the Nairobi and Kisumu ASK shows. The Company has completed building a permanent stand at Kisumu ASK showground and recent exhibitions at both Nairobi and Kisumu shows have continued to be encouraging and have earned ACFC a number of awards and trophies. ACFC has also embarked on an aggressive marketing of spirits and yeast in the local market especially in view of stiff competition generated by recent liberalization of the economy. Export potential and product diversification are also being examined.

Social Impacts & Achievements

The Company continues to step up its training programs covering both local and overseas courses for the staff and has consequently kenyanized all its expatriate staff previously holding most key positions in the Company. In addition, management lays great emphasis on the welfare of its workers and apart from providing other essential amenities such as onsite medical services, canteen, school, social clubs etc. construction of some additional houses received Board approval and will enhance the number of houses at the existing staff housing complex. On the social front ACFC continues to serve the surrounding community in Muhoroni in various socio-economic aspects (e.g. harambee contribution/donations) besides providing direct and indirect employment to over 500 families. There is also a plan to sink some boreholes and provide clean water for downstream residents.

Future Prospects

The Company's continued survival in the era of the economic liberalization currently in force in most national economies has depended mainly on the devoted and efficient management team who have endeavoured to keep operating costs low and maintained reasonable efficiency in both operational and financial management of the Company. I am confident that given the required support in form of adequate and inexpensive supplies of molasses from sugar factories and an immediate relief from the heavy burden of external loans, the Company's prospects are bright and it is possible to achieve maximum capacity utilization in order to exploit fully the existing export market for crude alcohol and for satisfying local demand for yeast. It is also hoped that ACFC will diversify its product range shortly and also expand and improve on quality of yeast in order to compete favourably with imported alternates.

As reported last year, the Company is also committed to protecting the environment around which it operates and towards this end a bio-methane project (effluent treatment plant) costing approximately US\$ 2.00 million is in progress and it is envisaged that the plant will be commissioned by August, 1995. Some modest energy cost savings are expected to be realized when this project is commissioned besides improving on the present system of treating the effluents before disposing them to the river.

Acknowledgements

All the above achievements would not have been possible without the full commitment of all staff. On behalf of the Board of Directors, I take this opportunity to thank the management, employees and all our clientele in the business community without whose efforts and support the above achievements could not have been made. I also wish to extend our deepest gratitude to H.E. The President and his Government for the continued support given to this Company since its inception in 1982. My colleagues on the Board of Directors worked hard and consistently throughout the year and to them, too, I extend my sincere appreciation.

Finally, I urge all of us to redouble our efforts so that we can achieve even better results in future.

Dr. W. K. Kilele
CHAIRMAN

March 1995

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

DIRECTORS' REPORT

The Directors present their report and the accounts for the year ended 30th June, 1994.

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 14.2 million litres of alcohol and spirits and 1040 tons of yeast and realized a turnover of Kshs. 416 million (1992/93: 288 million). The operating loss before exchange losses was Kshs. 278,519,122 which includes interest on foreign loans of Kshs. 337 million (1992/93: 174 million). The loss for the year carried forward is Kshs. 145,989,720. This loss is after considering an exchange gain amounting to Kshs. 132,529,402 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 a dividend in view of the continued loss position.

Directors

The Directors as at 30th June, 1994 were:—

Dr. W. K. Kilele	- Chairman
Mr. M. N. Mehta	- (Alternate: Mr. Jay Mehta)
Mr. Mag. Franz Gritsch	- (Alternate: Mr. J. A. Emukule)
Mr. M. Kaitany	-
Dr. B. Muruli	- (Alternate: Mrs. J. Okanga)
Mr. M. G. Jani	- (Alternate: Mr. K. S. Shenoy)
Industrial and Commercial Development Corporation.	

Auditors

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

By order of the Board.

J. Z. ABUTA
COMPANY SECRETARY

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

30 JUNE 1994

I have examined the accounts of Agro-Chemical and Food Company Limited for the year ended 30 June 1994 in accordance with 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 are in agreement therewith and comply with the Companies Act, (Cap 486).

Subject to the reservations set out herebelow, in my opinion, the accounts, when read together with the notes thereon, give a true and fair view of the Company's state of affairs as at 30 June 1994 and of its loss and source and application of funds for the year ended on that date.

1. GOING CONCERN

During the year ended 30 June 1994, the Company made a loss of Kshs. 145,989,720.00 - (1993 - Kshs. 1,198,910,850.00). This brought the accumulated losses of the Company to Kshs. 2,452,393,429.00 as at 30 June 1994 which has wiped out the shareholders funds into a negative balance of Kshs. 851,278,681.00 as at the same date. The Balance Sheet had a negative working capital of Kshs. 1,074,511,203.00 as at 30 June 1994. Evidently, the Company was facing serious financial problems and was unable to repay loans and interest instalments due of Kshs. 1,241,692,554.00 and Kshs. 1,370,873,501.00 respectively. These accounts have, therefore, been drawn on a going concern basis which is dependent upon a satisfactory outcome of negotiations between the Governments and the Company concerning the conversion of loans of Kshs. 1,791,403,841.00 and accrued interest of Kshs. 1,370,873,501.00 into equity and the continued support by the creditors.

2. COMPANY DEBTORS

The Balance Sheet as at 30 June 1994 shows that the amount of debtors increased from Kshs. 55,176,967.00 as at 30 June 1993. These figures include trade debtors which increased from Kshs. 36,614,686.00 to Kshs. 96,570,075.00 during the period. Among the trade debtors as at 30 June 1994 were debts totalling Kshs. 17,378,569.90 owed to the Company by four oil companies since 1990/91 and whose recoverability is in doubt and for which provision for bad debts has not been made.

3. SHORT TERM DEPOSITS

Included in the short term deposits of Kshs. 134,911,668.00 shown in the Balance Sheet is an amount of Kshs. 25 million deposited with ICDC without the Treasury's approval. Correspondence availed to me shows that the amount should have been paid back in May/June 1993 but this has not been done. It is understood that ICDC has now agreed to repay this amount in six instalments.

W. K. KEMEI
AUDITOR-GENERAL (CORPORATIONS)

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 1994

	1994 SHS.	1993 SHS.
TURNOVER*	<u>415,646,801</u>	<u>287,916,845</u>
LOSS BEFORE TAXATION**	(145,989,720)	(1,198,910,851)
TAXATION***	<u> </u>	<u> </u>
LOSS FOR THE YEAR	<u>(145,989,720)</u>	<u>(1,198,910,851)</u>

* Includes Export Compensation of Kshs. 4,047,235 (Kshs. 20,734,740 in 1992/93) but reflected under miscellaneous income on Trading profit and Loss account.

** See Note 2

*** See Note 3

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

BALANCE SHEET 30TH JUNE, 1994

		1994 Shs.	1993 Shs.
FIXED ASSETS	4	<u>1,613,741,366</u>	<u>1,604,565,814</u>
INVESTMENTS (AT COST)	5	<u>6,000</u>	<u>6,000</u>
DEFERRED EXPENDITURE	6	<u>400,888,997</u>	<u>555,558,147</u>
CURRENT ASSETS			
Stock and work in progress	7	72,516,871	66,064,854
Debtors	8	158,430,574	55,288,829
Short-term deposits	9	134,911,668	244,757,636
Bank and Cash Balances		110,087	273,832
		<u>365,969,200</u>	<u>366,385,151</u>
CURRENT LIABILITIES			
Creditors	10	1,411,654,021	1,235,967,723
Bank Overdraft (secured)		28,826,382	39,561,857
		<u>1,440,480,403</u>	<u>1,275,529,580</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(1,074,511,203</u>	<u>)909,144,429)</u>
		<u>940,125,160</u>	<u>1,250,985,532</u>
Financed By:			
Share Capital	12	60,000,000	60,000,000
Reserves	13	<u>(911,278,681)</u>	<u>(765,226,461)</u>
Shareholders' Fund		<u>(851,278,681)</u>	<u>(705,226,461)</u>
Loans	11	<u>1,791,403,841</u>	<u>1,956,211,993</u>
		<u>940,125,160</u>	<u>1,250,985,532</u>

The Accounts on pages 7 to 14 were approved by the Board of Directors on 9th February, 1995.
and were signed on its behalf by:

<p>W. K. Kilele G. K. Kimweli</p>	<p>} } }</p>	<p>Directors</p>
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AGRO-CHEMICAL AND FOOD COMPANY LIMITED

**STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 30TH JUNE, 1994**

	1994 Shs.	1993 Shs.
Loss before taxation	(145,989,720)	(1,198,910,851)
Adjustment for items not involving the movement of funds:		
Depreciation	63,856,738	39,726,654
Prior year adjustment to reserve	(62,500)	688,891
Exchange Loss on foreign Currency loan	(10,139,002)	567,496,523
Profit on sale of fixed assets	—	(274,990)
	<hr/>	<hr/>
Funds (absorbed)/generated by operation	(92,334,484)	(591,273,773)
Proceeds on sale of fixed assets	—	275,000
	<hr/>	<hr/>
	<u>(92,334,484)</u>	<u>(590,998,773)</u>
APPLICATION OF FUNDS		
Additional to fixed assets	73,032,290	38,950,178
Loans repaid	—	—
	<hr/>	<hr/>
	73,032,290	38,950,178
MOVEMENT IN WORKING CAPITAL		
Increase/(decrease) in stock and work in progress	6,452,017	10,657,405
(Decrease)/Increase in debtors	103,141,745	(23,152,255)
Decrease/(increase) in creditors	(175,686,298)	(732,583,294)
	<hr/>	<hr/>
	<u>(66,092,536)</u>	<u>(745,078,114)</u>
(DECREASE)/INCREASE IN NET LIQUID FUNDS	<u>(99,274,238)</u>	<u>115,129,163</u>
Represented by:		
(Decrease)/increase in bank, cash and deposits balances	(110,009,713)	146,230,075
Decrease/(increase) in bank O/D	10,735,475	(31,100,912)
	<hr/>	<hr/>
	<u>99,274,238</u>	<u>115,129,163</u>

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS

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 involved to customers.

(c) 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%
Building	2.5%
Plant and Machinery	4.0% (6.67% before revaluation in 1993).
Motor Vehicles	25%
Furniture and fixtures	15% for revalued assets and 10% for additions thereafter.

(d) FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated at the rates of exchange at balance sheet date. Transactions during the year are translated at the rate 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.

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO ACCOUNTS (CONTD.)

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

2. LOSS BEFORE TAXATION

	1994	1993
	Shs.	Shs.
Loss before taxation is arrived at after charging:		
Depreciation	63,856,738	39,726,654
Auditors' remuneration & Exp.	200,000	137,500
Interest payable/(receivable) on:		
Loans	336,984,336	174,127,263
Bank Overdraft	10,340,226	5,390,766
Deposits	(24,088,829)	(18,564,722)
Others	(172,758)	(162,330)
Gains (Loss) on exchange	<u>132,529,402</u>	<u>(1,118,647,652)</u>

3. TAXATION

There is no liability for taxation. At 30th June 1994, there were losses available for carrying forward of approximately Shs. 615,000,000 (1993 - 535,000,000).

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

I. FIXED ASSETS

	Long Leasehold Land and Buildings Shs.	Plant and Machinery Shs.	Capital Work in progress Shs.	Vehicle Furniture and Fixtures Shs.	Total Shs.
COST OR VALUATION					
At 30th June 1993	238,220,000	1,345,054,000	8,767,351	18,500,673	1,610,542,024
Additions/Adjustments	(5,842)	2,666,881	64,558,287	5,812,964	73,032,290
Transfers	1,684,342	450,738	(2,268,139)	133,059	—
Disposals	—	—	—	—	—
At 30th June 1994	<u>239,898,500</u>	<u>1,348,171,619</u>	<u>71,057,499</u>	<u>24,446,696</u>	<u>1,683,574,314</u>
DEPRECIATION					
At 30th June 1993	—	—	—	5,976,210	5,976,210
Eliminated in respect of disposals	—	—	—	—	—
Change for the year	<u>5,931,473</u>	<u>53,926,865</u>	—	<u>3,998,400</u>	<u>63,856,738</u>
	<u>5,931,473</u>	<u>53,926,865</u>	—	<u>9,974,610</u>	<u>69,832,948</u>
BOOK VALUE					
At 30th June 1994	<u>233,967,027</u>	<u>1,294,244,754</u>	<u>71,057,499</u>	<u>14,472,086</u>	<u>1,613,741,366</u>
At 30th June 1993	<u>238,220,000</u>	<u>1,345,054,000</u>	<u>8,767,351</u>	<u>12,524,463</u>	<u>1,604,565,814</u>

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTD.)

	1994 SHS.	1993
5. INVESTMENT SHS.		
Cost of 300 shares 20/- each in K.G.G.C.U. Limited	6,000	6,000
5. DEFERRED EXPENDITURE		
Loss of translation of foreign currency loans outstanding	<u>400,888,997</u>	<u>555,558,147</u>
TOTAL	<u>400,888,997</u>	<u>555,558,147</u>
7. STOCK AND WORK IN PROGRESS		
Goods in transit	2,110,810	307,875
Raw materials & spares	46,731,411	34,766,128
Work in progress	1,353,563	1,006,821
Finished products	<u>22,321,087</u>	<u>31,435,128</u>
	72,516,871	67,515,952
Less provision for stock losses*	<u>—</u>	<u>(1,451,098)</u>
	<u>72,516,871</u>	<u>66,064,854</u>
3. DEBTORS		
Trade	96,570,075	36,614,686
Pre-payments	932,901	801,332
Creditors debit balances	6,841,521	695,844
Others	<u>54,086,077*</u>	<u>17,176,967</u>
	<u>158,430,574</u>	<u>55,288,829</u>
9. SHORTTERM DEPOSITS		
National Bank of Kenya Fixed Deposit	70,000,000	15,000,000
Barclays Bank of Kenya Fixed Deposit	36,553,425	20,000,000
Kenya Commercial Bank FX I C D C FD	25,000,000	25,000,000
Transnational Bank Call Deposit		10,000,000
Retention Account (Export Proceeds)		38,961,384
Retention Account (Giro Credit)		55,000,000
Retention Account (ETP LC)		55,000,000
Interest receivable	<u>3,358,243</u>	<u>5,796,252</u>
	<u>134,911,668</u>	<u>244,757,636</u>

Includes balance of Kshs. 30,643,322 set aside towards the purchase of Effluent Treatment plant not utilised by 30.6.94.

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTD.)

10. CREDITORS

Trade Creditors	26,110,061	14,781,190
Others*	1,385,543,960	1,221,186,533
	<u>1,411,654,021</u>	<u>1,235,967,723</u>

11. Loans	Interest Rate	Repayable Semi annual Instalments By 1997	1994 Shs.	1993 Shs.
Giro Credit Bank guaranteed by the Government of Kenya	% Variable		<u>1,791,403,841</u>	<u>1,956,211,993</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

* Includes interest accrued on foreign loan of Kshs. 1,370,873,500 and 1,211,279,565 for the year 1993/94 and 1992/93 respectively.

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTD.)

13. RESERVES

	CAPITAL RESERVE SHS.	REVENUE RESERVE SHS.	TOTAL SHS.
At 30th June 1993	1,541,114,748	(2,306,341,209)	(765,226,461)
Prior Year Adjustments *		<u>(62,500)</u>	<u>(62,500)</u>
Re-state of balance as at 30.6.93	1,541,114,748	(2,306,403,709)	(765,288,961)
Loss for the year At 30th June, 1994		<u>(145,989,720)</u>	<u>(145,989,720)</u>
	<u>1,541,114,748</u>	<u>(2,452,393,429)</u>	<u>(911,278,681)</u>

14. CAPITAL COMMITMENTS

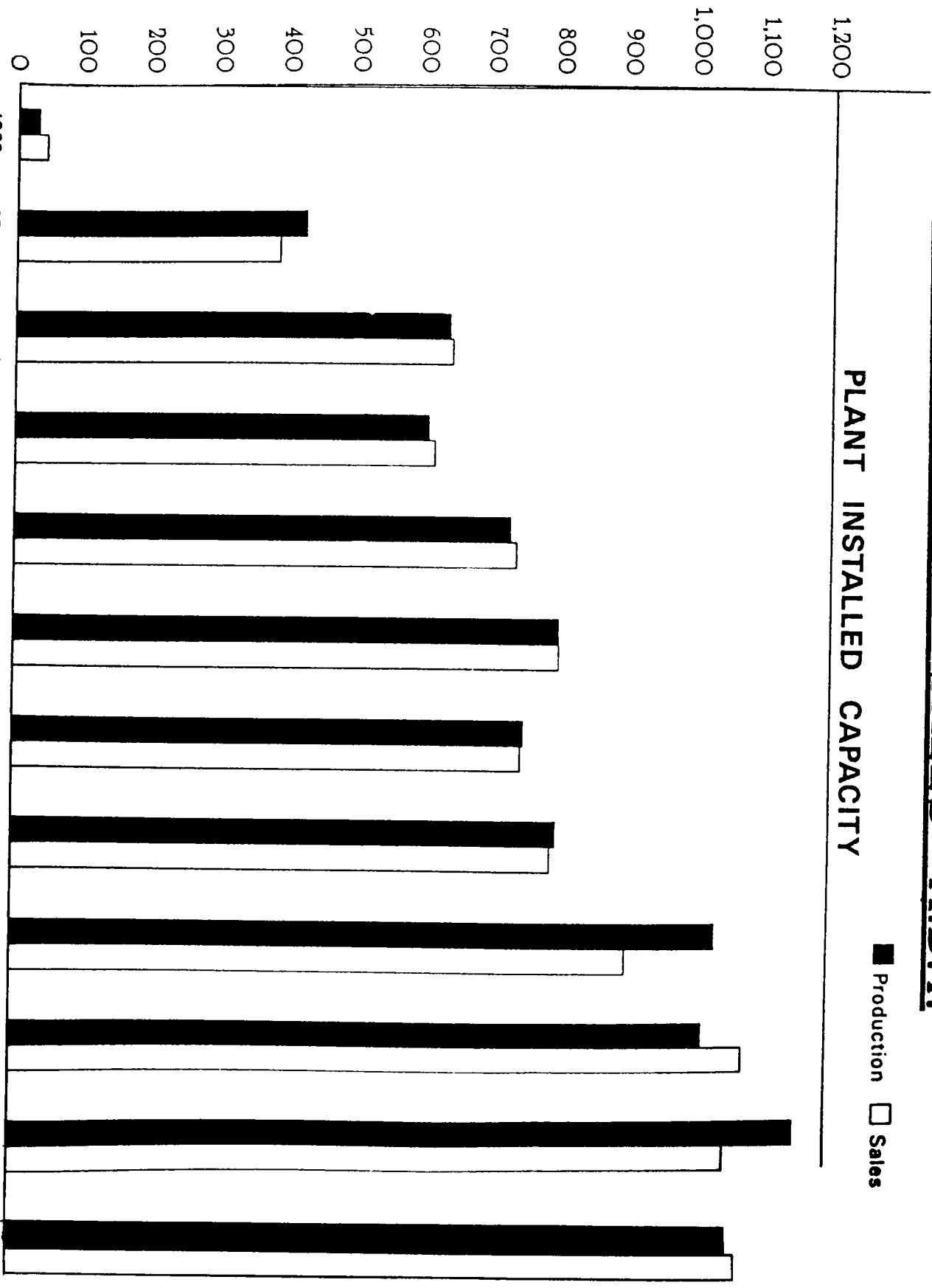
	1994	1993
	Shs.	Shs.
Contracted but not provided for ETP	<u>36,869,000</u>	<u>54,650,000</u>
Authorised but not contracted for		
1993/94	56,825,00	28,700,000
1994/95	<u>56,000,000</u>	<u>56,825,000</u>
	<u>112,825,000</u>	<u>85,525,000</u>

15. CONTINGENT LIABILITY

There was no contingent liability as at 30th June 1994 (1993 - Kshs. 9,359,500) in respect of bank letters of credit as such payments were made through Retention Account.

16. * Prior year adjustment represents shortfall of audit fees between provisions (of Kshs. 137,500) and amount agreed and paid (Kshs. 200,000) for the year 1992/93.

PRODUCTION AND SALES - A.D.Y.



PRODUCTION AND SALES - ALCOHOL

PLANT INSTALLED CAPACITY

■ Production □ Sales

