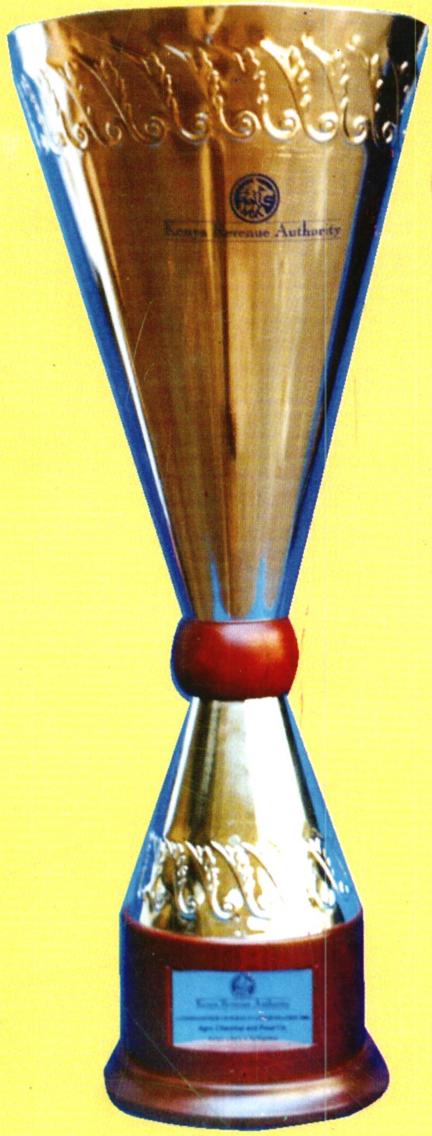
Agro-Chemical & Food Company Ltd.



ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2007.

Cover photo caption

Commissioner General's Commendation Trophy Awarded to Agro Chemical & Food Company Limited as a Distinguished Tax Payer category on 10th November 2006.

Agro-Chemical & Food Company Ltd.

ANNUAL REPORT AND ACCOUNTS
2006 - 2007

Factory: P.O. Box 18 - 40107, MUHORONI
Phone: (020) 2334180 - 2 MUHORONI. Fax (020) 2334046
Email: admin@acfc.co.ke

Regd. Office: Jeevan Bharati Building, 7th Floor, Harambee Avenue
P.O. Box 41175 - 00100, NAIROBI. Phone: 020 - 338849 / 2230083, Fax 020 - 317298
Email: acfcnbi@africaonline.co.ke

Contents

VISION AND MISSION STATEMENT

OUR VISION

To be the most efficient producer and preferred supplier of quality spirits, yeast and related products in the region for local and international markets.

OUR MISSION

To produce a wide range of spirits, yeast and related products of world class quality using appropriate and efficient technology, satisfying customer needs, giving maximum returns to shareholders and meeting employee aspirations.

Chairman's Report
For The Year Ended 30th June 2007

It is my pleasure to present the Annual Report and Audited Accounts of ACFC for the year ended 30th June 2007. I am pleased to acknowledge the commendable efforts taken by our Government in turning around the economy where substantial growth has been recorded in all sectors.

My appreciation goes to the Sugar Sub-Sector as a whole for the co-operation they extended in supplying us with molasses, though not to our full requirement. It is my hope that the good working relationship we have with the sugar companies, Kenya Sugar Board, the Ministry of Agriculture and other players will continue.

SUMMARISED OPERATING RESULTS

The company's operations mainly depend on the quantity of molasses that we are supplied by sugar companies. The company could only get 47,982 tons of molasses against a targeted quantity of 64,478. Thus the Company fell short of achieving the set budget for production and sales. The company produced a total of 12.175 million litres of alcohol out of the budgeted quantity of 14.3 million litres during the year. This quantity was also more as compared to 8.8 million litres produced during the previous year 2005/2006. The budgeted yeast production of 1,100 tons was almost achieved despite some technical problems. The quantity produced was 1,095 tons compared to 1,089 tons produced in the previous year. Out of the budgeted gross revenue of KShs.856 million, an amount of Kshs. 896 million was realized compared to KShs.687 million in the year 2005/2006.

Despite the above shortfall in procurement of molasses and consequent loss of production and sales, operating profit (before interest on loan) during the year was KShs.239 million compared to KShs.119 million during the previous year.

The above mentioned scenario translated to the gross and net operating profit as shown below:

Continued next page

Financial Highlights *Cont...*

	2006/2007			2005/2006			2004/2005	
PRODUCTION	**BUDGET '000'**	**ACTUAL '000'**	**% ACTUAL Vs BUDGET**	**BUDGET "000"**	**ACTUAL "000"**	**% ACTUAL Vs BUDGET**	**BUDGET '000'**	**ACTUAL '000'**
Alcohol (000)	14,300	12,175	85%	16,200	8,769	54%	18,000	13,053
Yeast (Tons)	1,100	1,095	99.5%	1,100	1,089	99%	1,100	1,025
Wet Yeast (Tons)	700	725	104%	500	728	146%	500	413
SALES								
Alcohol (000) Lts.	14,300	13,132	92%	16,200	8,449	52%	18,000	12,674
Yeast (Tons)	1,100	1,063	97%	1,100	1,028	94%	1,100	1,031
Wet Yeast (Tons)	700	725	104%	500	725	145%	500	415
Sales Turnover (million)	805	846	105%	959	613	64%	958	779
Other Income (million)	50	50	100%	37	74	200%	27	70
GROSS REVENUE K.shs. (Million)	885	896	105%	996	687	69%	985	848
Operating Profit Before Interest (Million)	109	239	219%	252	119	47%	295	246

Gross Revenue includes sales turnover and other income i.e. interest on short-term deposits or treasury bills, sale of Fodder Yeast, scrap and rent paid by employees. The total sales turnover for the year under review was KShs.846million compared to KShs.613 million in the previous year.

The operating profit before loan interest was KShs.239 million compared to KShs.119 million in 2005/2006. After adjusting an exchange gain of Kshs.523 million arising from favourable exchange rate in the year compared to Kshs.161 million in 2005/2006, the company registered an overall net profit of KShs.482 million compared to a loss of KShs.55 million in the previous year.

During the year the company entered into a performance contract with GOK where quarterly reports continue being submitted to the parent Ministry.

We continue feeling the burden of heavy loans. Once again, we request GOK to assist us by restructuring these loans as a lasting solution.

Conservation Of Environment And Improved Safety Standards

We have continued the conservation of environment through sound treatment and management of our effluent. The generation of biogas from effluent treatment plant has equally continued supplementing energy in our boilers, thus saving us from over dependence on fuel oil. As the Company is ISO 9000:2000 certified, lots of efforts are put in to ensure the continued production of quality products.

I am pleased to mention that during the financial year, the company was certified to the Food Safety Management Systems based on ISO 22000 requirements. This ensures that the products produced by the company are safe and in line with the international standards.

A successful launch of certification was done on May 2, 2007 at Hotel Grand Regency. We sincerely thank the Minister for Finance, Hon. Amos Kimunya who graced the occasion as the Chief Guest. We also thank all high profile guests who turned up to make the day a grand success. May I also highly commend the company for having been re-certified in ISO 9000:2000. This is a clear proof that we have maintained the coveted standards of Quality Management Systems. As food manufacturers, maintenance of this standard would guarantee our active presence in the market. I believe the same trend will be with ISO 2300.

The competition for the raw material (molasses) has continued adversely affecting our production. I therefore call upon all the stakeholders to tirelessly work towards finding a lasting solution to the problem. The improvement of quality of our alcohol through installation of Extra-Neutral Alcohol Plant has remained to be our most viable strategic objective for coming years. It is my settled belief that this project will be implemented and completed within time and budget. It is only through this project that our sustainability in the Kenya Alcohol Industry will be guaranteed.

With all the above mentioned achievements, the support from various stakeholders is vital for the continued success of the company.

Acknowledgments

ACFC has stayed afloat even in difficult times because of the commitment and dedication of our employees, who have continued to perform their duties with skill, loyalty and team spirit. Therefore, I take pride in thanking all for their selfless dedication and urge them to uphold these traits in future.

The positive contribution by our major customers, suppliers, transporters, bankers and other service providers cannot go unnoticed. May I especially acknowledge the vital role played by the Ministry of Agriculture, Ministry of Finance, Office of the President, Kenya Sugar Board and sugar companies for their continued guidance and support.

Future Prospects

The future prospects depend on the quantity of molasses that the company can get from sugar companies. Therefore I request concerned GOK authorities and all sugar companies to assist the Board and management to get adequate quantity of molasses at an affordable price. This will help the company in achieving higher production. Another issue is the restructuring of loans. A proposal

Conclusion

Finally, my sincere appreciation goes to all my colleagues on the Board for their tireless devotion and valued guidance. I look forward to similar enthusiastic co-operation in future. I also extend my personal thanks to the management and the staff of ACFC for their efforts and feel confident that they will still work hard and improve performance of the company in the coming years.

W.K. KIRWA
CHAIRMAN

Company Information

Directors as at 30th June, 2007

ADC	Mr. W.K. Kirwa (Chairman)
ADC	Ms. Juliet Gathee
ICDC	Mr. J.C. Mwaura
ICDC	Mr. Isaac Mogaka
IIC	Mr. M.N. Mehta - (Alternate: Mr. Jay Mehta)
IIC	Mr. S.C. Sharma
IIC	Mr. J.M. Otenyo
Ministry of Agriculture	P.S. (Alternate: Mr. S.O. Olala)
Ministry of Finance	P.S. (Alternate: Mr. P. C. Sigei)

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

Managing Agent and Registered Office:
Mehta Group Management Limited
Peponi Plaza, Peponi Rd.
P.O. Box 41175
NAIROBI

Advocates:
J. Stausi & Company Advocates
P.O. Box 77
KISUMU

Theuri Wanjohi & Co. Advocates
P.O. Box 6502 00100
NAIROBI

Auditors:
Controller & Auditor General
Kenya National Audit Office
P.O. Box 49384
NAIROBI

Bankers:
National Bank of Kenya Limited
Barclays Bank of Kenya Limited
Kenya Commercial Bank Limited

Secretaries:
Mr. Maina Ndweka

Senior Executives:

Mr. C.O. Oguya	Marketing Manager
Mr. J. Njoroge	Works Manager
Mr. D. Kariuki	Financial Controller

Directors' Report

The Directors present their report and the accounts for the year ended 30th June 2007.

Principal Activities:

The Company produces Rectified Spirit, Neutral Spirit, Industrial Methylated Spirit, Active Dry Yeast and fresh Wet yeast from sugar cane molasses for both local and export to other countries.

Results:

During the year the Company produced 12.175 million litres of alcohol and spirits and 1,095 tons of Active Dry Yeast and realized a turnover of Kshs.846million (2005/2006:613million). The operating profit before interest on loans and exchange gains was Kshs.238,796,380 million (2005/2006: Kshs.118,637,352). However after charging interest on loan of Kshs.279,175,604 (2005/2006: Kshs.334,056,513) and exchange gain of Kshs.523,015,653 (2005/2006: Kshs.160,573,378), the profit for the year carried forward is Kshs.482,636,429 (2005/2006: loss Kshs.54,845,783). The exchange gain amounting to Kshs.523,015,653 arises 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 controller and Auditor General will continue in office in accordance with section 12 of the Public Audit Act, 2003.

Statement of Director s Responsibilities

The Companies Act requires the Directors to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial year and of its profit or loss for that year. The Directors are required to ensure that the company maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safe guarding the assets of the company.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years, and in conformity with International Financial Reporting Standards. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 30th June 2007 and of its profit for the year then ended. The Directors further confirm the accuracy and completeness of the accounting records maintained by the company which has been relied upon in the preparation of the financial statements, as well as on the adequacy of the internal controls.

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

This statement is approved by the Board of Directors and it is signed on their behalf by:

W.K. KIRWA
BOARD CHAIRMAN

Date 11/03/2008

MR. I. MOGAKA
DIRECTOR

Date 11/03/2008

REPUBLIC OF KENYA

Telephone: Nairobi +254-20-335777
Fax: +254-20-330829
Email: cag@kenyaweb.com

P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF AGRO CHEMICAL AND FOOD COMPANY LTD FOR THE YEAR ENDED 30 JUNE 2007

I have audited the financial statements of Agro Chemical and Food Company Ltd set out on pages 13 to 24 which comprise the balance sheet as at 30 June 2007, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 14 of the Public Audit Act, 2003. 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.

Directors Responsibilities For the Financial Statements

The Directors are responsible for the preparation of financial statements, which give a true and fair view of the Company's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material mis-statement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Audit General

My responsibility is to express an independent opinion on financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provide a reasonable basis for my opinion.

1. Financial Position

The profit and loss statement for the year ended 30 June 2007 reflects a profit of Kshs.482,636,429 (2006 - loss Kshs. 54,845,783) which together with prior year adjustment of Kshs. 568,695 results in accumulated revenue deficit of 4,939,884,974. Further as disclosed in note 10 to the financial statements, GOK on - lent loans of Kshs. 2,327,091,424, loans interest deferred of Kshs. 2,431,810,547 and interest on GOK paid loans amounting to Kshs. 904,357,056 all totalling Kshs. 5,663,259,027 and which the company has failed to repay, have been classified as long term loans in the balance sheet. Had these loans been correctly classified as current liabilities the position would have reflected a net current liabilities of Kshs. 4,648,054,674. The Company is, therefore technically insolvent and the financial statements have been prepared on a going concern basis on the assumption that continued financial support will be made available by the Government, related parties and creditors.

2. Land Ownership

The balance sheet as at 30 June 2007 reflects Kshs. 1,431,302,275 against property, plant and equipment. As disclosed in note 4 to the financial statements, this balance includes Kshs. 5 million categorized as land and whose title deeds are held by the company. Information seen indicates that, the Company purchased four parcels of land which are still registered in the name of M/s East African Sugar Company (Muhoroni Sugar Company - In receivership) and which are excluded from the balance sheet. Three of the title deeds were charged to National Bank of Kenya and their discharge process started in 1989. In May, 2002, the Company paid Kshs. 2 million to the Bank in order to get partial discharge of the titles, so they can be registered in the Company's name. Although the company has indicated it is pursuing this matter, the registration had not been completed by 30 June 2007. In the absence of title documents, the ownership of the land could not be ascertained.

3. Contingent Liability

According to note 12(ii) to financial statements, there is a pending tax demand of Kshs. 229,517,721 from Kenya Revenue Authority. Information available indicates that Kenya Revenue Authority carried out an audit on the Company on 21 September 2004 to establish whether all taxes were being paid because there was a drop in excise duty payment by the company. The audit exercise established that the company underdenatured neutral spirit in disregard of the laid down regulation and on 2 December 2004 demanded Kshs. 229,517,721 with 2% p.m. penalty as provided for under the Customs and Excise Act Cap, 470. According to note 12(ii) the pending tax demanded by Kenya Revenue Authority is being discussed and is yet to be finalized. Although the company's consultants are of the view that the demand is expected to be vacated, the ground for this optimism cannot be ascertained since the Kenya Revenue Authority, in their letter dated 07 November 2007 insist that the Company has not provided any additional information which would cause it to vary its position.

4. Corporation Tax and Deferred Tax

Note 1 (f) to the financial statements states that there is no tax liability to be carried forward in view of accumulated losses of Kshs. 3,572 million (2005 Kshs. 3,528 million). The note is silent on deferred tax. However, this presentation does not conform with IAS 12 which requires disclosure on the movement of the current and deferred tax accounts and a reconciliation of current tax with the deferred tax. According to management, this will be done in subsequent financial statements.

Opinion

Except for the matters discussed in the foregoing paragraphs, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of affairs of the Company as at 30 June 2007 and of its profit and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the Kenya Companies Act, Cap 486 of the Laws of Kenya.

P.N. KOMORA, CBS.
CONTROLLER AND AUDITOR GENERAL

Nairobi
07 April 2008

Profit and Loss Account
For The Year Ended 30th June 2007

	(Note)	2007 (Kshs)	2006 (Kshs)
TURNOVER		845,876,933	612,880,456
PROFIT / (LOSS)		482,636,429	(54,845,783)
TAXATION	(1f)	-	-
PROFIT / (LOSS)		**482,636,429**	**(54,845,783)**

Balance Sheet as at 30th June 2007

	NOTE	2006-2007 (12 MONTHS) KSHS	2005-2006 (12 MONTHS) KSHS
NON-CURRENT ASSETS			
Property, Plant and Equipment	4	1,431,302,275	1,412,545,356
CURRENT ASSETS			
Inventories and work in Progress	2	106,619,437	152,789,002
Receivables	3	239,891,471	241,324,213
Short Term Deposits	5	971,200,968	796,066,824
Bank and Cash Balances	6	99,519,473	129,212,501
		1,417,231,349	**1,319,392,540**
CURRENT LIABILITIES			
Creditors	7	402,026,996	429,677,252
Overdrafts			
		402,026,996	**429,677,252**
Net Current Assets			
		1,015,204,353	889,715,288
		2,446,506,628	**2,302,260,644**
FINANCED BY:			
Share Capital	8	60,000,000	60,000,000
Reserves	9	(3,276,752,398)	(3,759,957,523)
		(3,216,752,398)	**(3,699,957,523)**
Shareholders Funds			
Long Term loans	10	5,663,259,027	6,002,218,167
		2,446,506,629	**2,302,260,644**

Accounts on pages 13 to 24 were approved by the Board of Directors on 26th September 2007 and were signed on its behalf by:

]
] Directors
]
]

Statement On Changes In Equity
For The Year Ended 30th June 2007

	Note	Share Capital (Kshs)	Capital Reserve (Kshs)	Revenue Reserves (Kshs)	Totals (Kshs)
As at 1st July 2005		60,000,000	1,526,684,013	(5,041,807,429)	(3,455,123,416)
Prior Year Adjustment		-	136,448,562	(326,436,886)	(189,988,324)
Loss for the year		-	-	(54,845,783)	(54,845,783)
As at 30th June 2006		**60,000,000**	**1,663,132,575**	**(5,423,090,098)**	**(3,699,957,523)**
As at 1st July 2006		60,000,000	1,663,132,575	(5,423,090,098)	(3,699,957,523)
Prior Year Adjustment	**(13)**	-	-	568,695	568,695
Surplus for the year		-	-	482,636,429	482,636,429
As at 30th June 2007		**60,000,000**	**1,663,132,575**	**(4,939,884,974)**	**(3,216,752,399)**

Cash Flow Statement

For The Period Ended 30th June 2007

	2006-2007 (12 MONTHS) KSHS.	2005-2006 (12 MONTHS) KSHS.
Net Cash Inflow from operating Activities:		
Net Profit / (loss) before taxation	**482,636,429**	**(54,845,783)**
Adjustment for items not involving movement of funds:		
Deffered Interest Capitalised	334,056,513	362,716,532
Depreciation	64,847,214	62,976,306
Prior Year Adjustment to reserves	568,695	(989,050)
Prior Year Adjustment to Loans	(561,176)	
Exchange (gain)/loss on foreign loans	(523,015,653)	(160,573,378)
Accumulated Depreciation on Assets Disposed	(19,288)	
Net Operating Profit/(Loss) before changes in working capital:	358,512,734	209,284,627
Changes in: -Inventories	46,169,565	(35,081,306)
-Debtors	1,432,742	(35,262,297)
-Creditors	(27,650,256)	(83,587,560)
Payment of VAT on disposal of Assets	(114,483)	
(a) Net Cash Flow from operating activities	378,350,302	55,353,464
Cash flow from investing activities:		
Purchase of assets	(83,739,185)	(29,266,278)
Disposal of Assets - Sales Proceeds-cost	830,000	
(b) Net Cash flow from investing activities	(82,909,185)	(29,266,278)
(c) Cash Flow from Financing activities:		
Repayment of Loans	(150,000,000)	(250,000,000)
Net Increase/(decrease) in cash and cash equivalents(a+b+c)	145,441,117	(223,912,814)
Cash and cash equivalent at the beginning of the year	925,279,325	1,149,192,139
Cash and cash equivalent at the end of the Period	**1,070,720,442**	**925,279,325**

Notes To The Accounts

1. **ACCOUNTING POLICIES**

The principal accounting policies adapted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) **Basis of Preparation**

The Company basically prepares its accounts on the historical cost basis of accounting as modified to ensure compliance with the requirements of the International Accounting Standards (IAS). The financial statements are presented in the functional currency, Kenya Shillings.

b) **Turnover**

Turnover represents the fair value of alcohol, spirits and yeast sales invoiced to or collected from customers (net of taxes and levies). Other income includes interest earned on fixed deposits and from normal trading activities and is recognized in the period in which it is earned.

c) **Foreign Currency translation**

Assets and liabilities denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year in foreign currencies are translated at the rate ruling at the date of the transactions. Realized and unrealized exchange rate gains or losses arising from such transactions are recorded in the profit and loss account.

d) **Property, Plant and Equipment.**

Property, plant and equipment is recorded at the revalued amounts. Depreciation is calculated to write off such cost or valuation using the straight-line method at the following rates:-

Land	1.05%
Miscellaneous Property	5.0%
Buildings	2.5%
Plant & Machinery	4.0%
Instrumentation & Cooling units	4.0 %
Motor Vehicles	12.5% for revalued items and 25.0% for additions thereafter.
Computers	33.0% for revalued assets and 25.0% for additions thereafter.
Furniture and fixtures	15% for revalued assets and 10% for additions thereafter.

Tangible fixed assets are depreciated in the year of acquisition and no provision for depreciation is provided for in the year of disposal. All fixed assets were revalued in June 2005 and the re-valued figures have been adopted as at 30th June 2007.

e) **Retirement benefit Costs.**

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 latter transferred to Employee Benefit Trustees Limited, "it's subsidiary".

In accordance with the requirements of the Retirement Benefit Act 1997, and the conversion approval by the Retirement Benefit Authority granted on 19th July 2004, the Trustee deed, Funds Management agreement, Investment agreement has been complied with. The accounts for 2006 have been completed and signed. The actuarial valuation is in progress.

The scheme has been registered and opening a bank account with Kenya Commercial Bank Kisumu branch will follow this.

At the beginning of this year, there were 76 in service and pensioner members in the scheme. The employees contribute 5% of their basic salaries while the sponsor contributes 20.5% which totals to 25.5% of the basic salary.

The scheme funds are managed by ICEA.

f) **Taxation**

Current corporate tax rate is 30.0% on adjusted profit. There is no tax liability in view of losses available for carry forward of approximately Kshs. 3,614 million (2006: 3,528 million).

g) **Comparative statements.**

Where necessary, comparative figures have been adjusted to conform with changes on presentation in the current year.

(h) **Inventories and stores.**

Finished goods are recorded at the lower of production cost and net realizable 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.

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.

4. Annexure To The Balance Sheet

Schedule Of Property, Plant & Machinery and Equipment

COST / VALUATION	Land Kshs.	Miscellaneous Property	Building, Housing & Factory Kshs	Plant and Machinery Kshs.	Work in Progress Kshs.	Motor Vehicles Kshs.	Computer & Accessories Kshs.	Furniture & Fixtures Kshs.	Total Kshs.
As at 1st July 2006									
COMPRISING									
Valuation as at 30-6-2006	5,000,000	15,500,000	250,500,000	1,134,837,428	3,936,505	13,736,808	13,017,563.00	8,214,725	1,444,743,029
Additions			2,652,332	18,072,302		7,436,500	1,993,794	623,706	30,778,634
Total as at 30-6-2006	**5,000,000**	**15,500,000**	**253,152,332**	**1,152,909,730**	**3,936,505**	**21,173,308**	**15,011,357**	**8,838,431**	**1,475,521,663**
Additions				7,729,200	73,958,838		1,289,285	761,862	83,739,185
Disposals						(154,342)			(154,342)
Transfers			1,170,348	28,346,347	(29,516,695)				
As at 30th June 2007	5,000,000	15,500,000	254,322,680	1,188,985,277	48,378,648	21,018,966	16,300,642	9,600,293	1,559,106,506
DEPRECIATION									
As at 30th June 2007	52,500	774,626	6,328,808	46,116,390		3,576,226	4,833,175	1,294,580	62,976,305
on Disposal						(19,288)			(19,288)
Charge for the year July 06-June 07	52,500	774,626	6,358,067	47,559,411		3,576,226	5,155,618	1,370,766	64,847,214
As at 30th June 2007	**105,000**	**1,549,252**	**12,686,875**	**93,675,801**		**7,133,164**	**9,988,793**	**2,665,346**	**127,804,231**
NET BOOK VALUE									
As at 30th June 2007	4,895,000	13,950,748	241,635,805	1,095,309,476	48,378,648	13,885,802	6,311,849	6,934,947	1,431,302,275
As at 30th June 2006	**4,947,500**	**14,725,374**	**246,823,524**	**1,106,793,340**	**3,936,505**	**17,597,082**	**10,178,182**	**7,543,851**	**1,412,545,358**

NOTES OF ACCOUNTS

2. INVENTORIES AND WORK IN PROGRESS

	2006-2007 Kshs	2005-2006 Kshs
Goods in transit	2,548,634	659,929
Raw Materials and spares	79,810,153	106,952,084
Work in progress	1,136,288	923,837
Finished Goods	23,124,362	44,253,153
	106,619,437	**152,789,002**

3. RECEIVABLES

Trade Debtors	107,242,975	129,951,119
Pre-payments	33,707,236	14,704,352
Creditors with debit Balances	9,669,408	6,446,232
Other Debtors	119,780,781	120,731,439
Total	270,400,400	271,833,142
Less prov. For doubtful debts	(30,508,929)	(30,508,928)
Total	**239,891,471**	**241,342,214**

5. SHORT TERM DEPOSITS

Fixed Deposits	966,416,623	791,416,623
Interest Receivable	4,784,345	4,650,201
	971,200,968	**796,066,824**

6. CASH AND CASH EQUIVALENT

Petty Cash (Nairobi)	18,868	9,243
Petty Cash (Muhoroni)	92,026	28,296
NBK Kisumu Current A/c	21,747,271	12,991,093
BBK Kisumu Current A/c	27,180,311	43,293,743
NBK Kisumu Savings A/c	918,303	24,280,556
NBK Nairobi Retention A/c	1,551,144	590,131
NBK Nairobi Current A/c	16,846,841	5,760,898
KCB Kisumu Current A/c	31,164,709	42,258,541
	99,519,473	**129,212,501**

7. CREDITORS

Trade Creditors	27,270,172	12,933,485
Debtors with credit balances	24,943,633	38,383,270
Other Creditors	349,813,191	378,360,497
	402,026,996	**429,677,252**

Included in other creditors is interest accrued on foreign loan of Kshs. 279,175,604 (2005/2006 Kshs. 334,056,513)

8. SHARE CAPITAL

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

9. RESERVES

	CAPITAL RESERVE Kshs	**REVENUE RESERVE Kshs**	**TOTAL Kshs**
As at 30th June 2006	1,663,132,575	(5,423,090,098)	(3,759,957,523)
Prior Year Adjustment	0	568,695	568,695
Re-stated balance as at 30th June 2007	1,663,132,575	(5422,521,403)	(3,759,388,828)
Profit for the year up to 30th June 2007		482,636,429	482,636,429
As At 30th June 2007	1,663,132,575	(4,939,884,974)	(3,276,752,399)

10. LOANS

Lender	Interest Rate	**2007 Kshs**	**2006 Kshs**
GOK ON-LENT	7%	2,327,091,424	2,582,844,800
Loans interest deferred		2,431,810,547	2,518,273,688
Interest on GOK paid Loan	13%	904,357,056	901,099,679
		5,663,259,027	**6,002,218,167**

Foreign Loans were restructured as at 31st December 1993 I.e converted to GOK on-lent loan of US$ 34,960,000 payable in fourteen semi-annual installments upto 2002. Interest accrued on on-lent loan is kshs. 2,431,810,547 and the interest accrued on loan paid on our behalf by GOK is Kshs. 904,357,056.

11. CAPITAL COMMITMENTS

Authorised and Contracted	124,326,000	62,551,000
Authorised but not Contracted	417,738,000	457,079,000
TOTAL	**542,064,000**	**519,630,000**

The authorized but not contracted includes Kshs. 360,000,000 for year 2006-2007 and Kshs. 308,495,000 for year 2005-2006 for the Extra Neutral Alcohol project.

12. CONTIGENT LIABILITY

(i) At the end of the financial period the company had a contigent liability of Kshs. 9,509,144 (2006 Kshs. 2,353,300) in respect of bank letters of credit issued and outstanding as at 30th June 2007. The potential liability that may arise from the letters of credit is in the event that the goods are supplied and the company has no funds to pay the suppliers. The directors are of the opinion that no such liability will arise.

(ii) There is a tax assessment from Kenya Revenue Authority pending that is being discussed and is not yet finalised. Delloitte consulting limited, our tax consultant is handling this issue and we forsee no liability arising.

13. PRIOR YEAR ADJUSTMENT

The prior year adjustment of Kshs. 568,695 represents the following: -

	2007	2006
1. Loan Interest Restatement		325,447,836
2. Payment to creditors for prior year Services paid in the current year	568,695	989,050
	568,695	326,436,886

Trading Profit And Loss Account
For The Period Ended 30th June 2007

	2006-2007 BUDGET KSHS. (12 Months)	2006-2007 ACTUAL KSHS. (12 Months)	2005-2006 ACTUAL KSHS. (12 Months)	2004-2005 ACTUAL KSHS. (12 Months)
SALES	805,366,000	845,876,933	612,880,456	778,967,689
COST OF SALES	491,580,000	466,572,159	377,336,534	380,502,001
GROSS PROFIT/(LOSS)	313,786,000	379,304,774	235,543,922	398,465,688
PROFIT ON SALE OF FIXED ASSETS	500,000	561,176		870,721
INTEREST ON TREASURY BILLS & FIXED DEPOSITS	40,000,000	41,164,631	65,338,982	59,409,713
RENT PAID BY EMPLOYEES	2,521,000	2,484,062	2,516,501	2,538,427
MISCELLANEOUS INCOME	6,500,000	6,236,999	6,086,568	7,358,103
	363,307,000	**429,751,642**	**309,485,973**	**468,642,652**
ADMINISTRATION EXPENSES				
Advertising & Public Relations	1,500,000	565,134	238,078	423,859
Auditors Remuneration and Exp.	700,000	650,000	650,000	650,000
Computer Expenses	1,800,000	1,558,221	694,808	1,265,323
Donations	1,100,000	1,169,010	1,421,151	2,741,214
Subscriptions& Newsletters	800,000	715,727	477,840	453,176
Entertainment Expenses	50,000	31,410	23,910	14,224
Guest House Expenses	800,000	673,818	751,837	788,722
Legal & Professional fees	1,500,000	461,382	3,644,200	1,008,092
Management Fees	23,000,000	22,563,285	23,053,646	24,926,065
Directors Expenses	6,585,000	2,765,063	2,595,414	2,773,073
Office Miscleneous, Equipments, Repairs and Exp.	2,000,000	1,662,889	1,546,782	1,826,153
Motor Running Expenses	8,719,000	10,028,673	10,902,822	7,867,688
Postage, telegram ,telex and Telephone	4,214,000	3,490,343	3,050,298	3,800,341
Printing & Stationery	1,800,000	1,123,420	1,330,233	1,547,627
Travelling & Accommodation	7,000,000	4,797,885	4,638,970	4,890,772
Marketing & NBI Office Expenses	15,880,000	10,908,772	9,517,602	8,071,531
Corruption Prevention Committee Expenses	300,000	10,400		-
Productivity Improvement	400,000			
Security Services Hire	4,874,000	5,931,145	4,556,372	3,805,943
	83,022,000	**69,106,577**	**69,093,953**	**66,853,803**
ESTABLISHMENT				
Insurance & Licences	12,000,000	8,415,515	9,948,994	10,119,015
Rent	700,000	892,480	677,386	639,895
Repair 7 Renewal (Housing)	800,000	305,230	907,721	507,888
	13,500,000	**9,613,225**	**11,534,101**	**11,266,798**

	2006-2007 BUDGET KSHS. (12 Months)	2006-2007 ACTUAL KSHS. (12 Months)	2005-2006 ACTUAL KSHS. (12 Months)	2004-2005 ACTUAL KSHS. (12 Months)
FINANCE EXPENSES				
Bank Charges	1,200,000	707,608	1,085,472	1,511,040
Exchange Loss(Operation)	-	11,491	377,079	(496,032)
Interest on bank o\d	150,000	118,180	144,100	292,464
Other Interest	-	(24,407)	(210,765)	(408,650)
	1,350,000	**812,872**	**1,395,886**	**898,822**
STAFF COSTS				
Recruitment Expenses	500,000	817,064	598,527	732,195
Salaries & Wages	35,996,000	34,419,629	32,089,509	29,696,735
Staff Welfare	15,626,000	11,338,681	13,160,339	13,834,303
Work Permit/Dependent fees	-	-	-	-
	52,122,000	**46,575,373**	**45,848,375**	**44,263,233**
TOTAL EXPENSES	149,994,000	126,108,047	127,872,315	123,283,656
PROF \(LOSS) BEFORE TAX & EXCHANGE GAIN \(LOSS)/LOAN INTEREST & DEPRECIATION	213,313,000	303,643,594	181,613,658	345,359,996
DEPRECIATION	104,421,000	64,847,214	62,976,306	98,914,521
NET PROFIT (LOSS) BEFORE LOAN INTEREST AND EXCHANGE (GAIN)/ LOSS	108,892,000	238,796,380	118,637,352	246,445,475
INTEREST ON LOANS	331,335,000	279,175,604	334,056,513	362,716,532
NET PROFIT / (LOSS) BEFORE EXCHANGE GAIN / (LOSS)	(222,443,000)	(40,379,224)	(215,419,161)	(116,271,057)
EXCH. LOSS \(GAIN) ON FOREIGN LOAN		523,015,653	160,573,378	206,131,641
PROF\(LOSS) AFTER EXCH LOSS ON FOREING LOAN INTEREST BUT BEFORE TAX	**(222,443,000)**	**482,636,429**	**(54,845,783)**	**89,860,584**

Agro-Chemical & Food Company Ltd.

Annual Report & Financial Statements For The Year Ended 30th June 2007

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