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agro-chemical and food company limited

ANNUAL REPORT & ACCOUNTS

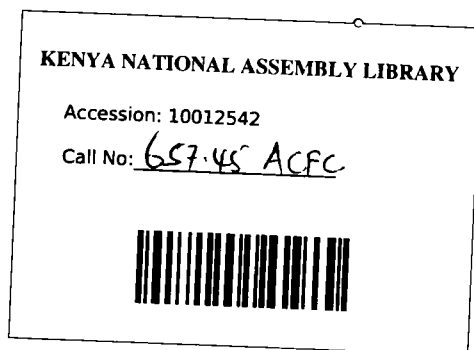
1995/96

95/96

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

REPORT AND ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 1996

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AGRO-CHEMICAL AND FOOD COMPANY LIMITED

CHAIRMAN'S REPORT FOR THE YEAR ENDED 30TH JUNE 1995



Financial year 1995/96 witnessed firm action by the Government in arresting the downturn in the economy caused by various constraints, such as depressed consumer demand, slackened industrial output and the ever increasing production costs. Other factors such as power interruptions, adverse weather conditions and the strengthening of the Kenya Shilling also contributed to the low-key performance of the economy in 1995/96. However it is evident that recent Government's fiscal actions will produce the desired level of economic recovery in 1996/97 and beyond and push the growth rate above 5.0% p.a.

OPERATING RESULTS

Our concerted efforts in production together with strict management controls and budgetary processes have yielded reasonably good operating results during the financial year under review. The emphasis in 1995/96 was to contain costs without affecting plant operations, safety of manpower, machinery and the quality of our products. This strategy led to better operating performance in the year compared to the preceding year.

Here below are the summarized operating results:

	1995/96			1994/95	
	Budget	Actual	% of Budget	Actual	% of Budget
<u>Production:</u>					
Alcohol (000 Lts)	16,000	16,048	100	11,312	71
Yeast (Tonnes)	1,100	1,107	101	1,109	101
<u>Sales:</u>					
Alcohol (000 Lts)	16,000	16,678	104	10,653	66
Yeast (Tonnes)	1,100	1,133	103	1,100	100
<u>Gross Revenue</u>	K.Shs. 534.3 million			K.Shs. 346.5 million	
<u>Operating Surplus/</u> <u>(Loss)</u>	K.Shs. 63.6 million			K.Shs. (36.6) million	

Despite the decline in the economic activity experienced in the manufacturing sector, ACFC produced 16 million litres of alcohol and 1107 tons of yeast which was above the set budgets. Out of 16.7 million litres of alcohol sold, approximately 12 million litres were exported to Europe and earned KShs. 259 million in foreign exchange during 1995/96, bringing the cumulative export earnings to over KShs. 960 million. Local sales of spirits and yeast continued to grow inspite of stiff competition from liberalized importation of these items.

Capacity utilization in the alcohol plant was approximately 89% and 92% in the yeast section. Our plant remained closed for 43 days during the financial year due to paucity of molasses. With timely GOK

tervention, ACFC has received 40,114 metric tonnes of molasses during the first six months of the current financial year 1996/97 compared to 34,916 metric tonnes for the corresponding period of the preceding financial year.

The Company is constructing an additional molasses storage tank and this is expected to alleviate the perennial molasses problem during the out of crop (00C) seasons of the sugar factories.

FINANCIAL RESULTS

Through careful management of resources, the Company registered significant growth despite the adverse spill-over effects of the preceding year. The operating profit was Kshs. 63.6 million compared to an operating loss of Kshs. 36.6 million in the previous year, before charging loan interest of Kshs 224 million (1994/95: 230 million) and an exchange of loss of Kshs. 110.3 million (1994/95: 13.5 million).

PRODUCTION EFFICIENCY & MARKETING STRATEGY

In spite of the ageing equipment and machinery, the plant was able to operate at almost full capacity. However, efforts are being made to revamp/replace worn out equipment, particularly in yeast production and the entire instrumentation units.

On the marketing front, the Company plans to review the export market for rectified spirits and to expand the local market of spirits besides improving the yeast quality further in order to remain competitive.

SOCIAL IMPACTS & ACHIEVEMENTS

ACFC lays much emphasis on staff training and development and for this reason Kshs. 15 million has been spent towards both external and local courses for both management and unionisable staff. Some 134 employees have benefited through these training courses and seminars conducted by various training consultants in last few years. Apart from training, the Company continues to provide necessary welfare facilities to its staff.

ACFC won First Prize and clinched a trophy for the "Best Manufacturers Stand" at A.S.K. Kisumu Show in August 1995 and was honoured by the distinguished visit to our stand by His Excellency the President and Commander In-Chief of the Armed Forces, Hon. D.T. Arap Moi, CGH. We were honoured by the keen interest by His Excellency in understanding our manufacturing processes and problems. The Company has so maintained "Best Overall" position in various categories among the ICDC stalls at the Nairobi International Show.

FUTURE OUTLOOK

The sustained cost control measures, triggered off by real desire to maximise our operational efficiency and to increase productivity in all areas at minimum cost, is our hope for satisfactory results in the future.

The Company intends to expand and modify the alcohol plant in order to produce 22 million litres instead of the installed capacity of 18 million litres per annum, apart from producing Extra Neutral Alcohol (ENA). This will enable ACFC to fetch maximum returns in the export market and to recover the ever increasing input costs.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere thanks to my colleagues on the Board of ACFC for their valued guidance and the management team and the members of staff for the exemplary manner in which they have performed throughout the year. At the same time I welcome ACFC's transfer to Ministry of Agriculture, Livestock Development & Marketing from Ministry of Energy and trust that the new parent Ministry will continue to protect and support ACFC in its endeavour to consolidate its growth through financial restructuring, improvement of the quality of management, production and productivity. I must also thank the Hon Minister of Energy, Permanent Secretary and other officials of the Ministry for their guidance and support. Lastly I would like to pay deserved tribute to Kenya Sugar Authority and sugar companies for their relentless support and co-operation during the year.

R. WALTER KILELE, E.B.S
CHAIRMAN

AGRO CHEMICAL AND FOOD COMPANY LIMITED

DIRECTORS' REPORT

The Directors present their report and the accounts for the year ended 30th June 1996

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 16 0 million litres of alcohol and spirits and 1107 tons of yeast and realized a turnover of Kshs. 507 million (1994/95:307 million) The operating loss before exchange losses was K.Shs. 161,062,719 which includes interest on foreign loans of K.Shs. 225 million (1994/95:230 million). The loss for the year carried forward is K.Shs. 271,349,762. This loss is after considering an exchange loss amounting to K Shs 110,287,043 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, 1996 were:

Dr W K. Kilele	- ADC	-Chairman
Mr M N. Mehta	- IIC	-(Alternate Mr Jay Mehta)
Dr Friedrich Steinleitner	-Schoeller Bleckman	-(Alternate Mr M.J.A. Emukule)
Mr. M. Kaittany	- ICDC	
Dr. B Muruli	- ADC	-(Alternate: Mrs. J. Okanga)
Mr. S C Sharma	- IIC	
Mr G.K Kimweli	- ICDC	

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

BANKERS: National Bank of Kenya
Barclays Bank of Kenya

By Order of the Board

J.Z. ABUTA
COMPANY SECRETARY

REPORT OF THE AUDITOR-GENERAL (CORPORATIONS) ON THE ACCOUNTS OF
THE AGRO-CHEMICAL AND FOOD COMPANY LIMITED FOR THE
YEAR ENDED 30 JUNE 1996

I have examined the accounts of Agro-Chemical and Food Company Limited for the year ended 30 June 1996 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, present a true and fair view of the Company's state of affairs as at 30 June 1996 and of its loss and source and application of funds for the year then ended.

1. GOING CONCERN

The financial position of the Company showed little improvement during the year under review. The Company made a loss of Kshs.271,349,762.00 (1994/95 Kshs.280,564,228.00) bringing the accumulated losses to Kshs.2,936,465,288.00 as at 30 June 1996. The shareholders' funds have been depleted to a negative figure of Kshs.1,335,761,173.00 and the Company has been unable to meet its loan obligations when they fell due. The working capital is also in the negative at Kshs.302,593,156.00. The Company has attributed the poor financial situation to huge exchange losses on loans and increasing operation costs which are apparently beyond the control of the Board of Directors and the Management.

These accounts have therefore been drawn on a going concern basis which is dependent upon continued support by the creditors and a satisfactory restructuring of loan portfolio by the Government.

2. EFFLUENT TREATMENT PLANT

On 19 March 1993 the Company entered into a contract for the construction of an effluent treatment plant at a contract price of Kshs.52,142,492.00. The project was to be completed in 20 months period that is, in November 1994. At the time of signing this report the contractor was still on the site and the project was still incomplete. Further, expenditure on the project has escalated by Kshs.61,356,063.00 or 118% to Kshs.113,498,555.00. Apparently the Company will not receive full value for the money spent on the project.



W.K. KEMEI
AUDITOR-GENERAL (CORPORATIONS)

24 January 1997

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 1996

	1996 SHS.	1995 SHS.
TURNOVER	507,404,177 =====	307,028,417 =====
LOSS BEFORE TAXATION	(271,349,762)	(280,564,228)
TAXATION**	- =====	- =====
LOSS FOR THE YEAR	(271,349,762) =====	(280,564,228) =====

**See Note 3

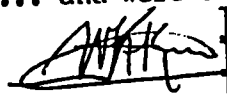
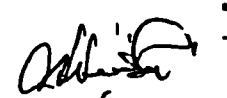
AGRO-CHEMICAL AND FOOD COMPANY LIMITED

BALANCE SHEET 30TH JUNE, 1996

	NOTES	1996 SHS.	1995 SHS.
FIXED ASSETS	4	<u>1,560,337,735</u>	<u>1,595,561,045</u>
INVESTMENTS (AT COST)	5	<u>6,000</u>	<u>6,000</u>
DEFERRED EXPENDITURE	6	<u>-</u>	<u>51,607,475</u>
CURRENT ASSETS			
Stock and work in progress	7	76,448,959	90,323,390
Debtors	8	70,134,879	68,955,681
Short-term deposits	9	129,021,055	145,730,995
Bank and Cash Balances		<u>15,296,615</u>	<u>44,620</u>
		<u>290,901,508</u>	<u>305,054,686</u>
CURRENT LIABILITIES			
Creditors	10	554,903,676	349,090,454
Bank overdraft (secured)		<u>38,590,988</u>	<u>22,725,530</u>
		<u>593,494,664</u>	<u>371,815,984</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(302,593,156)</u>	<u>(66,761,298)</u>
		<u>1,257,750,579</u>	<u>1,580,413,222</u>
Financed By:			
Share Capital	12	60,000,000	60,000,000
Reserves	13	<u>(1,395,761,173)</u>	<u>(1,124,387,408)</u>
Shareholders' Fund		<u>(1,335,761,173)</u>	<u>(1,064,287,408)</u>
Loans	11	<u>2,593,511,732</u>	<u>2,644,800,630</u>
		<u>1,257,750,579</u>	<u>1,580,413,222</u>

The Accounts on pages 5 to 13 were approved by the Board of Directors on

29/10/96..... and were signed on its behalf by:

 Directors


AGRO-CHEMICALS AND FOOD COMPANY LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 30TH JUNE 1996

	1996	1995
	SHS.	SHS.
Loss before taxation	(271,349,742)	(280,564,228)
Adjustment for items not involving the movement of funds:		
Depreciation	65,634,759	64,558,289
Prior year adjustment to reserve	24,003	(67,791,491)
Restructuring of Loans	-	(853,396,789)
Exchange Loss/(Gain) on foreign currency loan	97,492,452	82,898,335
Profit on sale of fixed assets	(85,843)	(404,990)
	<hr/>	<hr/>
Funds (absorbed)/generated by operation	(108,284,371)	(1,054,700,874)
Proceeds on sale of fixed assets	11,200	321,000
	<hr/>	<hr/>
	<u>(108,273,171)</u>	<u>(1,054,379,874)</u>
	=====	=====
APPLICATION OF FUNDS		
Additions to fixed assets	30,411,449	46,629,969
Loans repaid	97,147,238	-
	<hr/>	<hr/>
	127,558,687	46,629,969
MOVEMENT IN WORKING CAPITAL		
Increase/(decrease) in stock and work in progress	(13,874,431)	17,806,519
(Decrease)/increase in debtors	1,179,198	(89,474,893)
Decrease/(increase) in creditors	(205,813,222)	1,062,563,567
	<hr/>	<hr/>
	<u>(218,508,455)</u>	<u>990,895,193</u>
	=====	=====
(DECREASE)/INCREASE IN NET LIQUID FUNDS		
	<u>(17,323,403)</u>	<u>16,854,712</u>
	=====	=====
Represented by:		
(Decrease)/Increase in bank, cash and deposits balances	(1,457,945)	10,753,860
Decrease/(increase) in bank O/D	(15,865,458)	6,100,852
	<hr/>	<hr/>
	<u>(17,323,403)</u>	<u>16,854,712</u>
	=====	=====

AGRO CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

a) BASIC 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.

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.

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 transaction. Gains or losses on exchange arising from accrued interest and portion of foreign loan due are included in the profit and loss account.

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

2 LOSS BEFORE TAXATION

	1996 SHS.	1995 SHS.
Loss before taxation is arrived at after charging:		
Depreciation	65,634,759	64,558,289
Auditors' remuneration & Exp.	250,000	200,000
Directors' " "	1,238,560	1,194,250
Interest payable/(received) on:		
Loans	224,498,271	230,498,271
Bank overdraft	4,949,075	6,697,789
Deposits	22,940,615	(22,814,294)
Others	(85,822)	12,408
Gains (loss) on exchange	(110,287,043)	(13,473,916)
	=====	=====

3 TAXATION

There is no liability for taxation. At 30th June 1996, there were losses available for carry forward of approximately Shs 1,309 million (1995-1,009 million)

AGRO-CHEMICAL AND FOOD COMPANY LIMITED

4 FIXED ASSETS

	Land, Housing & Factory	Plant and Machinery	Work in Progress	Vehicle Furniture and Fixtures	Total
	<u>KSHS</u>	<u>KSHS</u>	<u>KSHS</u>	<u>KSHS</u>	<u>KSHS</u>
COST OR VALUATION					
At 30th June 1995	251,276,490	1,350,879,178	101,540,838	26,171,777	1,729,868,283
Additions		2,123,488	23,183,331	5,104,630	30,411,449
Disposals				(104,632)	104,632)
Transfers	<u>1,404,009</u>	-	<u>(1,404,009)</u>	-	-
At 30th June 1996	<u>252,680,499</u> =====	<u>1,353,002,666</u> =====	<u>123,320,160</u> =====	<u>31,171,775</u> =====	<u>1,760,175,100</u> =====
DEPRECIATION					
At 30th June 1995	12,141,223	107,951,042	-	14,214,973	134,307,238
Eliminated in respect of disposals	-	-	-	(104,632)	(104,632)
Change for the year					
July 1995-June 1996	<u>6,211,569</u>	<u>54,109,117</u>	-	<u>5,314,073</u>	<u>65,634,759</u>
At 30th June 1996	<u>18,352,792</u> =====	<u>162,060,159</u> =====	<u>-</u> =====	<u>19,424,414</u> =====	<u>199,837,365</u> =====
NET BOOK VALUE					
At 30th June 1996	<u>234,327,707</u>	<u>1,190,942,507</u>	<u>123,320,160</u>	<u>11,747,361</u>	<u>1,560,337,735</u>
At 30th June 1995	<u>239,135,267</u> =====	<u>1,242,928,136</u> =====	<u>101,540,838</u> =====	<u>11,956,804</u> =====	<u>1,595,561,045</u> =====

AGRO-CHEMICAL AND FOOD COMPANY LIMITED**NOTES TO THE ACCOUNTS (CONTD.)**

	1996 SHS.	1995 SHS.
5. INVESTMENT		
Cost of 300 shares 20/= each in K.G.G.C.U. Limited	6,000	6,000
6. DEFERRED EXPENDITURE		
Loss on translation of foreign currency loans outstanding	-	51,607,475
	<u>-</u>	<u>51,607,475</u>
	=====	=====
7. STOCK AND WORK IN PROGRESS		
Goods in transit	622,425	1,358,495
Raw materials & Spares	60,728,756	52,596,217
Work in progress	985,736	3,660,500
Finished Products	14,112,042	32,832,687
Less provision for stock losses	-	(124,509)
	<u>76,448,959</u>	<u>90,323,390</u>
	=====	=====
DEBTORS		
Trade	45,827,003	44,563,433
Less Prov. for doubtful debts	(16,712,295)	(16,712,295)
Pre-payments	7,685,161	5,978,380
Creditors debit balances	4,631,396	2,832,621
Others	28,703,614	32,293,542
	<u>70,134,879</u>	<u>68,955,681</u>
	=====	=====
9. SHORT TERM DEPOSITS		
National Bank of Kenya Fixed Deposit	125,000,000	80,000,000
Barclays Bank of Kenya Fixed Deposit	-	55,000,500
ICDC FD	-	9,551,712
Interest receivable	4,021,055	1,178,783
	<u>129,021,055</u>	<u>145,730,995</u>
	=====	=====

AGRO-CHEMICALS AND FOOD COMPANY LIMITED**NOTES TO ACCOUNTS (CONTD.)****10 CREDITORS**

	1996 KSHS.	1995 KSHS.
Trade Creditors	5,664,420	15,481,618
Other Creditors*	549,239,256	333,608,836
	<u>554,903,676</u>	<u>349,090,454</u>
	=====	=====

11. LOANS**

	Interest Rates	1996 KSHS	1995 KSHS
Giro-Credit bank guaranteed by GOK	Variable	461,556,685	710,813,430
GOK	Variable	2,006,704,000	1,933,987,200
Giro-Credit Bank paid by GOK	-	125,251,067	-

** Foreign loans were restructured as at 31st December, 1993 i.e. Giro-Credit Bank Loan

AUST. 125,374,976.57 repayable semi-annually upto 1997 and GOK converted to US\$ 34,960,000

Payable in fourteen semi-annual instalments upto 2002.

AUST. 23,174,900.44 i.e. KShs. 125,251,067 in respect of Girocredit long term loan was paid on our behalf by GOK in 1995/96.

12. SHARE CAPITAL

	1996 SHS.	1995 SHS.
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. 461,301,185 and KShs. 322,671,276 for the year 1995/96 and 1994/95 respectively along with interest paid on our behalf by GOK in 1995/96 amounting to KShs. 71,524,158.

AGRO CHEMICAL AND FOOD COMPANY LIMITED

NOTES TO THE ACCOUNTS (CONTD.)

13 RESERVES

	CAPITAL RESERVE SHS.	REVENUE RESERVE SHS.	TOTAL SHS.
At 30th June 1995	1,540,778,758	(2,665,166,166)	(1,124,387,408)
Prior Year Adjustment (Note 16)	(74,643)	50,640	(24,003)
Re-state of balance as at 30 6 96	1,540,704,115	(2,665,115,526)	(1,124,411,411)
Loss for the year at 30th June 1996		(271,349,762)	(271,349,762)
	<u>1,540,704,115</u>	<u>(2,936,465,288)</u>	<u>(1,395,761,173)</u>

14 CAPITAL COMMITMENTS

	1996 SHS.	1995 SHS.
Contracted but not provided for	<u>17,021,589</u>	<u>20,173,632</u>
Authorised but not contracted for 1995/96	40,000,000	56,825,000
1996/97	<u>80,536,000</u>	<u>40,000,000</u>
	<u>120,536,000</u>	<u>96,825,000</u>

15 CONTINGENT LIABILITY

There was a contingent liability of KShs. 693,400= (1995 KSHS 11,464,800) in respect of bank letters of credit issued and outstanding as at 30th June 1996

16 *Prior year adjustment of Kshs (24,003) represents the following
KSHS

(i) Audit fee for 1994/95	(50,000)
(ii) Loss arising on sale of fixed assets revalued in 1986	(74,643)
(iii) Reversal of expenses accrued in earlier years but so far deemed not payable	205,418
(iv) Reversal of payments made in respect of imported materials	(40,035)
(v) Reversal of payments made in respect of G I T deemed not receivable	<u>(64,743)</u> (24,003) =====

PRODUCTION AND SALES - A.D.Y.

PLANT INSTALLED CAPACITY

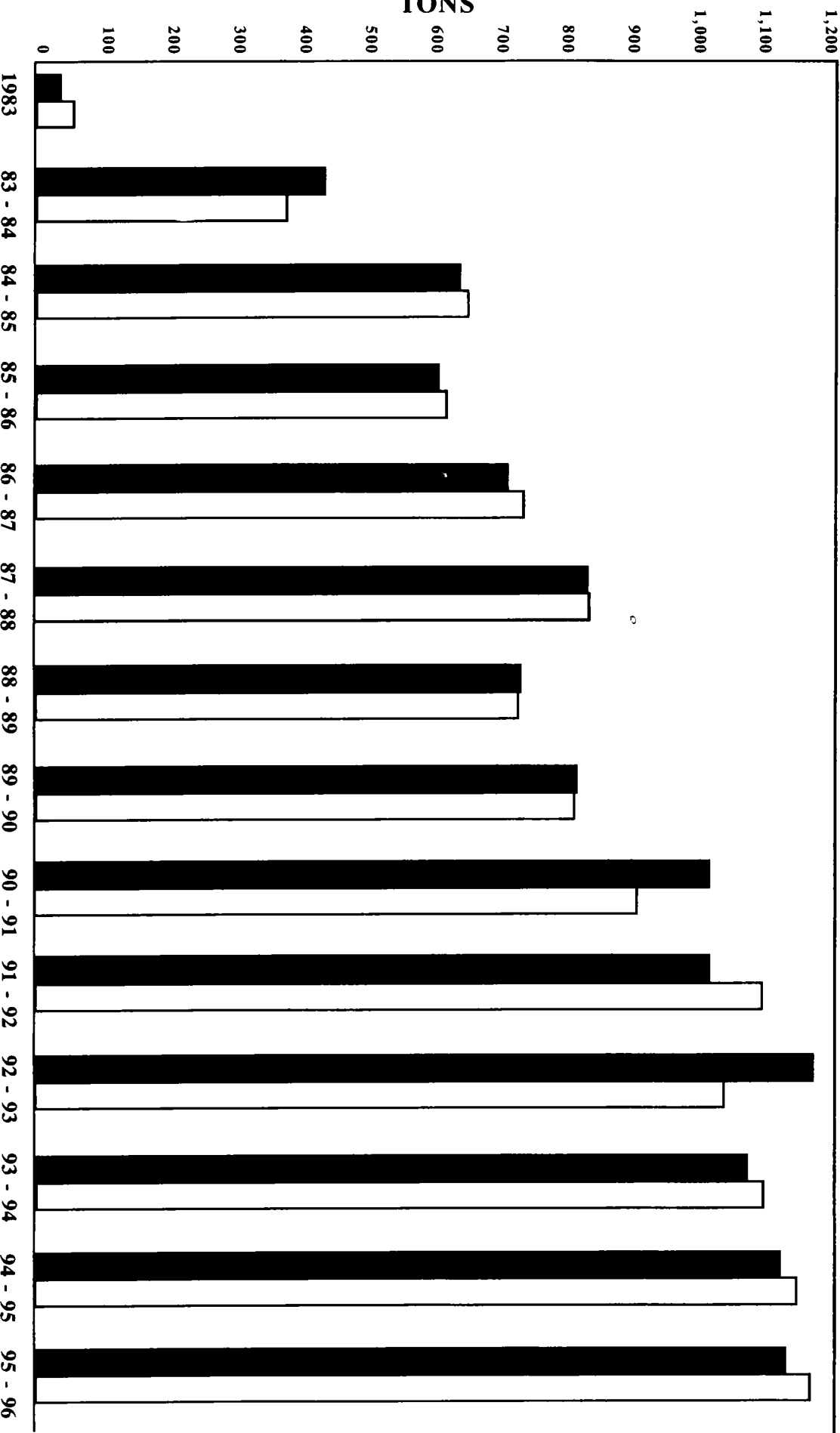


PRODUCTION



SALES

TONS



PRODUCTION AND SALES - ALCOHOL

PLANT INSTALLED CAPACITY

PRODUCTION
 SALES

MILLION LTS.

