AGRO-CHEMICAL AND
FOOD COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2022

Prepared in accordance with the Accrual Basis of Accounting Method
under the International Financial Reporting Standards (IFRS)

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I. COMPANY INFORMATION

a) BACKGROUND INFORMATION

Agro-Chemical and Food Company was established in 1978 under the Companies Act Cap 486 to produce power alcohol from sugar cane molasses. It was a unique joint venture between the private sector and the Government of Kenya. The Power Alcohol was to be blended with petrol to make gasohol as a national strategy for reducing foreign exchange used to purchase petroleum oil. The project was conceived by Mr. M. N Mehta, Chairman of Mehta Group and implemented within the budgeted time and costs. The company was finally established and commissioned in 1982.

The project also suited well with the strategy adopted by the Government of Kenya as part of rural industrialization program meant to curb post-independence migration to urban areas. The technology selected was from M/s. Vogelbusch of Austria which was one of the “best technologies” in the world in the field of Alcohol and Active Dry Yeast.

The program could not be sustained because there was no policy and legal framework to regulate the use of power alcohol. In addition, there was resistance from the multinational petroleum Companies who feared a reduction in their market share and therefore the Company shifted to producing various grades of spirits and yeast.

Upon inception, the Company was under the Ministry of Energy, however from 1996, the Company was placed under the Ministry of Agriculture where it has been to date.

At the cabinet level, ACFC is represented by the Cabinet Secretary, Ministry of Agriculture and livestock who is responsible for general policy and strategic directions of the company. ACFC is domiciled in kenya, and factory located in Muhoroni.

b) PRINCIPAL ACTIVITIES

The Company produces Extra Neutral Spirit, Kenya Methylated Spirit, Industrial Methylated Spirit, Active Dry Yeast, fresh Wet yeast, Carbon dioxide, Surgical Spirits and Hand Sanitizers from sugar cane molasses for both local and export markets. The company also produces bottled spirits and carbon dioxide.

I. COMPANY INFORMATION (cont.)

c) Board of Directors

Directors who served the Company during the year are as follows:

ORGANIZATION & NAME

Agricultural Development Corporation
Mr. Mohamed Bulle-Chairman
(Appointed on April 5, 2019)

Agricultural Development Corporation
Mr. Rodgers Karumpu
(Appointed on January 3, 2022)
Replaced Dr. Winnie Macharia

Kenya Development Corporation
Mrs. Faith Diana Nene
(Appointed on 30.11.2017).

Kenya Development Corporation
Mr. Erastus Njoroge
(Appointed on August 12, 2021)
Replaced Mr. Daniel Manthi Muimi

The Mehta International Limited
Mr. Anil Shah
(Appointed on September 11, 2021).
Alternate to Mr. Suresh C. Sharma

The Mehta International Limited
Mr. John Kiruthu
(Alternate to Mr. M.N. Mehta)
(Appointed on September 11, 2021).
Replaced Mr. Nanalal P. Sheth,

Ministry of Agriculture, Livestock Fisheries & Irrigation
(State Department Crop Development)
P.S. (Alternate: Mr. James Wanjohi)
(Appointed on 03.02.2020).

The National Treasury
C.S. (Alternate: CPA. Margaret Wamuyu)
Appointed on 30.09.2019

Acting Managing Director & Chief Executive:
Mr. Timothy Jomo Ogwang
(Appointed On January 6, 2022)

Company Secretary:
Ms. Sharon Cheruiyot, CPS (Kenya)
P. O. Box 18-40107
MUHORONI, KENYA

d) Registered Office
Jeevan Bharati Building
7th Floor, Harambee Avenue
P. O. Box 41175 –00100 Nairobi, Kenya
Telephone 020-2230083

e) Principal place of Business
Muhoroni Factory
Muhoroni Town
P. O. Box 18-40107
Muhoroni, Kenya
Telephone +254 020 2334020/1
Email. admin@acfc.co.ke
Website: www.acfc.co,ke

f) Corporate Bankers
National Bank of Kenya Limited
P. O. BOX 1152-40100
KISUMU

ABSA Bank Kenya Limited
P. O. Box 831, KISUMU

KCB Bank
P. O. Box 113
MUHORONI

g) Independent Auditors
Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P. O. Box 30084
GPO 00100
NAIROBI, Kenya

h) Principal Legal Advisers

1. Staussi Asunah & Oluoch Advocates
   P. O. Box 3140-40100
   Kisumu, Kenya

2. Theuri Wanjohi & Co. Advocates
   P. O. Box 6502-00100
   Nairobi, Kenya

II. THE BOARD OF DIRECTORS

Mr. Mohamed Bulle
Chairman

He was born in the year 1958 and was appointed to the Board on 05.04.2019 He is currently the Managing Director of Agricultural Development Corporation and is a holder of BSC (Agricultural Education and Extension) and M.Sc. Environmental Science (Specialized in sustainable development and climate change) He has three year working experience with ACFC.

Mr. Rodgers Karumpu

He was born on 13/07/1974 and was appointed to the Board on 03.01.2022. He is a holder of LLB and an advocate at the High Court in Kenya. He has one year working experience with ACFC and he is currently the chair of Audit and Risk committee.

Mrs. Faith Diana Nene

She was born in the year 1968 and was appointed to the Board on 30.11.2017. She is currently the Director Corperate services at the Kenya Development Corporation. She has five years working experience with ACFC. She is currently the chair of Staff and Finance Committee of the Board.

Mr. Erastus Njoroge

He was born on 3rd May 1984 and was appointed to the Board on 12th August 2021. He is a Deputy Director- Portfolio Monitoring at KDC and a holder of Master's degree in Financial Economics as well as a Bachelor's Degree with specialization in Mathematics and Economics. He has one year working experience with ACFC.

II. THE BOARD OF DIRECTORS

The National Treasury C.S.
(Alternate: CPA. Ms. Margaret Wamuyu)

She was born in the year 1985 and was appointed to the Board on 30.09.2019. She is currently working at The National Treasury and is a holder of Master of Business Administration degree from the University of Nairobi and Bachelor of Commerce degree (First Class Honors) from KCA University. She is a Certified Public Accountant and a Member of Institute of Certified Public Accountants of Kenya (ICPAK). She has three years experience working with ACFC.

Mr. Anil Shah
Alternate to Mr. Suresh Sharma

He was born on 9th August 1963 and was appointed to the Board on 11th September 2021. He is a Specialist in Sugar Industry and has one year working experience with ACFC.

Mr. John Kiruthu

He was born on 12th March 1963 and was appointed to the Board on 11th September 2021 He is a practicing Accountand and has one year working experience with ACFC

Mr. M.N. Mehta

He was born in the year 1932 and was appointed to the Board on 15.12.1982. He has fourty years working experience with ACFC.

II. THE BOARD OF DIRECTORS

Mr James Wanjohi)
Alternate to the PS Ministry of Agriculture

He was born in the year 1968 and was appointed to the Board on 03.03.2020. He has two years working experience with ACFC. He is currently a working at Ministry of Agriculture and Livestock (State Department for Crop Development). He is a holder of MSc. Agric Extension, Bsc Agric.

Mr. Timothy Jomo Ogwang
Acting Managing Director and Chief Executive

He was born on 12th December 1965 and is a holder of bachelor's degree of Science in Agriculture from University of Nairobi. He was appointed to the Board on 6th January 2022 and is currently the Acting Managing Director and Chief Executive.

Ms. Sharon Cheruiyot

She is currently the Company Secretary and Manager Legal Services. She is a holder of Bachelor of Law (LLB), an advocate of the High court a Certified Secretary, a member of ICS and LSK

III. MANAGEMENT TEAM

Mr. Timothy Jomo Ogwang
Acting Managing Director and Chief Executive

He was born on 12th December 1965 and is a holder of bachelor's degree of Science in Agriculture from University of Nairobi. He was appointed to the Board 6th January 2022 and is currently the Acting Managing Director and Chief Executive

Mr. Edwin O. Owiti

He is currently the General Manager Finance and ICT. He was born in 1976 and is a holder of B. ED, M A (ECON), CPA(K) and member of ICPAK

Ms. Sharon Cheruiyot

She is currently the Company
Secretary and Manager Legal Services. She is a holder of Bachelor of Law (LLB), an advocate of the High court a Certified Secretary and a member of ICS.

IV. CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30TH JUNE 2022

It is my pleasure to present the Annual Report and financial statements of ACFC for the year ended 30th June 2022.

SUMMARISED OPERATING RESULTS

The Company's operations mainly depend on the quantity of molasses supplied by sugar companies. The Company received 69,522 tons (2020/2021: 66,344 tons) of molasses against a budgeted quantity of 65,000 tons.

The Company produced 14.955 million (2020/2021: 13.874 million) litres of alcohol against budgeted quantity of 14.20 million litres. Active Dry Yeast (ADY) production was 30 tons (2020/2021: 39 tons) against a budget of 250 tons representing a decrease of 220 tons.

The budgeted quantity of ADY was not achieved due to diminishing demand of ADY as a result of stiff competition from imported yeast.

Wet Yeast production was 724 tons (2020/2021: 603 tons) against a budget of 1,000 tons representing a decrease of 276 tons. The target for wet yeast production was not met due to competition from imported instant yeast.

The Company realized a turnover of Kshs.1,683.769 million (2020/2021 Kshs.1,509.691 million) against the budget of Kshs.2,031.955 million.

The highlights of the overall operating results for the year under review compared to budget are as tabulated below:

FINANCIAL HIGHLIGHTS

	2021-2022				2020-2021			2019-2020	
PRODUCTION	UNIT	BUDGET	ACTUAL	% ACTUAL / BUDGET	BUDGET	ACTUAL	% ACTUAL / BUDGET	BUDGET	ACTUAL
Alcohol	Lts '000"	14,200	14,955	105%	14,000	13,874	99%	13,100	13,565
Active Dry Yeast	Tons	250	30	12%	280	39	14%	280	62
Wet Yeast	Tons	1,000	723	72%	1,100	603	55%	1,000	740
Carbon Dioxide	Tons	500	44	9%	200	4	2%	800	42
Compounded Spirit (Patriot) (artons)	Cartons	468,000	16,147	3%	88,000		0%	88,000	10,574
SALES									
Alcohol	Lts '000"	14,200	13,495	95%	14,000	13,216	94%	13,100	13,216
Active Dry Yeast	Tons	250	39	16%	280	65	23%	280	65
Wet Yeast	Tons	1,000	603	60%	1,100	740	67%	1,000	740
Carbon Dioxide	Tons	500	65	13%	200	42	21%	800	42
Compounded Spirit (Patriot) (artons)	Cartons	468,000	2,675	1%	88,000	9,950	11%	88,000	9,950
FINANCIAL INDICATORS									
Sales Turnover	Kshs. 000	2,031,955	1,683,769	83%	2,090,073	1,509,691	72%	1,896,493	1,583,821
Other Income	Kshs. 000	58,700	71,363	122%	53,700	63,607	118%	65,500	70,516
GROSS REVENUE	**Kshs. 000**	**2,090,655**	**1,755,132**	84%	**2,143,773**	**1,573,298**	73%	**1,961,993**	**1,654,337**
Operating profit / (Loss) before loan interest	Kshs. 000	181,854	(7,189)	-4%	116,451	68,877	59%	99,692	-20,415
Interest on Loan	Kshs. 000	276,291	306,713	111%	298,515	294,966	99%	309,517	284,430
Net Profit / (Loss) before tax	**Kshs. 000**	**(94,437)**	**(313,902)**	332%	**(182,064)**	**(226,089)**	124%	**-209,825**	**-304,845**
Coporate tax 30%	Kshs. 000	-	7,172			11,050			10,960
Net Profit / (Loss) after tax	**Kshs. 000**	**(94,437)**	**(321,074)**	340%	**(182,064)**	**(237,139)**	130%	**-209,825**	**(315,805)**

Total sales turnover for the year was Kshs.1,683.769 million compared to Kshs. 1,509.691 million in the previous year. Gross revenue includes sales turnover and other income i.e., interest on short-term deposits, sale of scrap and rent paid by employees. The gross revenue for the period was Kshs.1,755.132 million compared to Kshs. 1,573.299 million last year. The Company registered an operating loss before loan interest of Kshs.7.189 million compared to a profit of Kshs. 68.877 million in 2020/2021. After charging loan interest of Kshs.306.713 million (2020/2021: Kshs. 294.966 million) the Company registered an overall net loss of Kshs.313.902 million compared to a net loss of kshs. 226.089 million in 2020/2021. After Charging Corporate tax of Kshs. 7.172 million (2020/2021: Kshs.11.050 million the Company registered a loss of Kshs.321.074 million 2020/2021 loss of Kshs. 237.139 million.

CHALLENGES

During the year, the Company could not achieve its budgeted production, sales and profitability targets. This is mainly due to:

a) Diminishing demand for ADY as a result of stringent alcoholic crackdowns and stiff competition from imported yeast.
b) Low uptake of Carbon dioxide as a result of plant breakdowns.
c) Cheap brands of Compounded spirits in the market.
d) Increased use of imported instant yeast in the bakeries
e) Increased cost of production as a result of high consumption of fuel oil.
f) Low pricing of ENA as a result of competition from other distillers

IV. CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30TH JUNE 2022 (Cont.)

ACKNOWLEDGEMENT

May I acknowledge the commitment and dedication of our employees who have continued to perform their duties with skill, loyalty, and team spirit to enable the Company to achieve such a milestone. May I also acknowledge the vital role played by the Ministry of Agriculture and Livestock (State Department of Crops Development and Agricultural Research), The National Treasury, Agricultural Food Authority (AFA)and Sugar companies for their continued guidance and support.

PROSPECTS

The Company prospects depend on the quantity of molasses that the Company can obtain from sugar companies. Our continued appeal to the sugar companies for affordable molasses remains on course. When the Company is finally privatized, and strategic alliances entered with sugar companies, this dream will surely be realized.

CONCLUSION

My sincere appreciation goes to all my colleagues on the Board for their tireless devotion and valued guidance. I look forward to similar enthusiastic and co-operation in the future. I also wish to extend my sincere appreciation to the management and the staff of ACFC for their efforts and feel confident that they will work even harder and smarter towards turning around the Company back to profitability.

MOHAMED M. BULLE
CHAIRMAN

V. REPORT OF THE MANAGING DIRECTOR AND CHIEF EXECUTIVE

During the year 2021/2022 the Company registered a net loss of Kshs. 321.074 million Compared to a net loss of Kshs. 237.139 million in 2020/2021 mainly due to high fuel oil consumption as a result of the delay in completion of the CSTR project.

ACFC has strategic pillars and objectives within its Strategic plan 2018/2019 to 2022/2023.

These strategic pillars are as follows:

1. Enhance stability of raw materials supply.
2. Strengthen Company revenue and profit streams
3. Improve Factory production efficiencies
4. Improve the Company Environmental, Occupational Safety and Quality management systems
5. Strengthen the ACFC institutional Capacity.

The Company develops its annual work plans based on the above pillars. Assessment of the Boards performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets for the financial year 2021/2022 period based on its 5 strategic pillars. The Company intends to do aggressive marketing, introduce new products, enhance production capacities, and embrace cost rationalization. The management believes that these strategies will enable the Company bounce back to recovery path.

ACFC is under privatization and consultancy is currently underway by the Privatization Commission. Privatization of the Company is key in bringing back the Company to profitability and a healthier balance sheet will therefore be realized. The Company intends to complete the continuous stirred tank reactor project which will lead to increased savings on energy usage.

I remain optimistic and looking forward to the days when ACFC will return to profitability and declare dividends to its shareholders. I would wish to thank the Board, Management, and staff of ACFC as well as other stakeholders for the support received during the year.

TIMOTHY JOMO OGWANG
AG. MANAGING DIRECTOR AND CHIEF EXECUTIVE

VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2021/2022

Agro Chemical and Food Company has 5 strategic pillars and objectives within its Strategic Plan for the FY 2018/2019- 2022/2023.

These strategic pillars are as follows:

Pillar 1: Raw Materials
Pillar 2: Company Revenues and profits
Pillar 3: Factory operations
Pillar 4: Environment, Occupational Safety and Quality Management
Pillar 5: Institutional Capacity

ACFC develops its annual work plans based on the above 5 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2021/2022 period based on its 5 strategic pillars, as tabulated below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1: Raw material	Enhance stability of Raw Materials supply	Quantity of Molasses procured	-Price Negotiation with Millers -Sign Contracts with Transporters - Storage tanks refurbished	Increased raw material sourcing from 66,344 tons (2020/21) to 69,522 tons Storage capacity maintained at 13,800MT
Pillar 2: Company Revenues and profits	Strengthen Company Revenue and Profit Streams	-Approved sales & marketing plan -Diversification into new products	-Sales & marketing plan implemented -Credit policy implemented -Product portfolio diversification	Increased company sales turn-over from Ksh.1.573 billion (2020/2021) to Ksh.1.758 billion in 2021/22 -Increased product range
Pillar 3: Factory operations	Improve factory production efficiencies	Maximize factory capacity utilization	-Revamp alcohol fermentation plant -Refurbish boilers -Revamp effluent management	*14.955million Litres of alcohol produced *345,000 Litres of denatured spirits produced *724 Tons of Wet Yeast produced -Construction of New Effluent plant on-going
Pillar 4: Environment, Occupational Safety and Quality Management	Improve the Company Environment, Occupational Safety and Quality management systems	Develop, implement, and maintain the Quality, Environment, Occupational Safety and Health and Food Safety Management systems	-Domesticate Relevant National policies and ensure compliance - Statutory audits -Undertake programs to ensures maintenance ISO certifications	-All relevant polices domesticated and approved -Increased compliance with relevant standards -ISO certifications acquired and maintained (ISO 9001;2015) -Pool of trained personnel
Pillar 5: Institutional Capacity	Strengthen ACFC Institutional capacity	- No. of physical facilities improved - No. of human resource instruments reviewed -No. of Staff Trained	-Upgrade communication infrastructure -Staff Trainings done -Review & implement HR instruments - Improved Governance	-Improved ICT infrastructure -Training plan implemented -5Nos. of HR instruments approved and implemented -Training of board members on Mwongozo

VII. CORPORATE GOVERNANCE STATEMENT

Agro-Chemical and Food Company Limited (ACFC) is committed to good corporate governance and as such conducts its operations in accordance with internationally accepted principles of good corporate governance. The Company will provide timely and reliable information on its activities, structure, financial situation, and performance to all shareholders.

Role and Responsibilities of Board of Directors

The Board formulates policies and strategies that enhance transparency and accountability. The Board provides the overall strategic guidance to the Company and is accountable to shareholders and other stakeholders. The day-to-day management of the Company has been delegated to the Resident Director & Chief Executive (RD&CE). However, the Board retains the overall responsibility for the Company's performance in financial, compliance, monitoring and operational areas. Specific responsibilities of the Board include:

a. Reviewing and approving strategic plans, internal control and compliance, codes of conduct, financial reporting, and legal compliance
b. Reviewing and approving major capital expenditure
c. Approving the Company's financial and accounting policies and financial statements

Board Composition:

The Board of ACFC is composed of nine directors representing the three shareholders vis, ADC, two directors, KDC, two directors, TMIL, three directors, representative of P.S, Ministry of Agriculture and Livestock (State Department for Crop Development and Agricultural Research) and representative of C.S., The National Treasury. Therefore, the Company Directors are not elected but are representatives of institutions by their respective offices.

As per the provisions of the Memorandum and Articles of Association of the Company, the Board Chairman is the Managing Director of ADC.

The Chairman is responsible for managing the Board and providing leadership to the Company while the RD&CE is responsible to the Board for running of the Company in accordance with instructions given by the Board. The RD&CE implements Board decisions and instructions with the assistance of the management team.

Board Meetings:

The Board meets regularly and at least four times a year to, amongst other things, agree on the Company's objectives and strategies to realize the objectives, review performance against agreed targets, consider and approve the annual and quarterly financial statements and to discuss other matters of strategic importance to the Company. Senior management of the Company attends Board meetings by invitation, whenever necessary. During the year, the schedule of meetings held, and attendance thereof is as tabulated below:

	NAME	29/07/2021	15/09/2021	28/10/2021	14/12/2021	21/12/2021	06/01/2022	24/01/2022	25/03/2022	27/04/2022	28/04/2022
1.	Mr. Mohamed Bulle - Chairman ADC	✓	✓	✓	✓	✓	✓	✓	✓	X	X
2.	Dr. Winnie Macharia ADC (replaced on 03/01/2022)	✓	X	✓	✓	✓	N/A	N/A	N/A	N/A	N/A
3.	Mr. Rodgers Karumpu (Appointed on 03/01/2022)	N/A	N/A	N/A	N/A	N/A	✓	✓	✓	✓	✓
4.	Mrs. Faith Nene KDC	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
5.	Mr. Daniel Muimi KDC (replaced on 12/08/2021)	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6.	Mr. Erastus Njoroge KDC (Appointed on 12/08/2021)	N/A	✓	✓	✓	✓	✓	✓	✓	✓	✓
7.	Mr. Suresh Sharma TMIL (replaced on 7/09/2021)	X	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8.	Mr. Anil Shah TMIL (Appointed on 7/09/2021)	N/A	✓	✓	✓	✓	✓	✓	✓	✓	✓
9.	Mr. Nanalal P. Sheth TMIL (replaced on 7/09/2021)	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10.	Mr. John Kiruthu TMIL (Appointed on 7/09/2021)	N/A	✓	✓	✓	✓	✓	✓	✓	✓	✓
11.	Mr. James Wanjohi MOA	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
12.	Ms. Margaret Wamuyu TREASURY	✓	✓	X	✓	✓	✓	✓	✓	✓	✓
13.	Mr. Ashok Agrawal RD & CE	✓	✓	✓	✓	✓	✓	N/A	N/A	N/A	N/A
14.	Mr. Timothy Ogwang	N/A	N/A	N/A	N/A	N/A	N/A	✓	✓	✓	✓

Board Committees:

For effective running of the affairs of the Company, the Board has delegated part of its responsibilities to standing committees. The Committees operate under clearly defined mandates which spell out their responsibilities, scope of authority and procedures for reporting to the Board. The Board has three standing committees,

a) Audit and Risk Committee

The purpose of this Committee is to review the systems established to ensure sound public financial management and internal controls, risk management policies as well as compliance with policies, laws, regulations, procedures, plans and ethics.

b) Staff and Finance Committee

The purpose of the Committee is to oversee staff and finance matters of the Company, which involves employees' conditions and remuneration policy, budgets, procurement, and performance contracts.

c) Technical and Commercial Committee

The purpose of the Committee is to assist the Board in developing and managing a framework for implementing the Company's core functions of producing and marketing its products by providing adequate resources and ensuring that such resources are effectively utilized in line with the Company's mandate.

Conduct of Business and performance reporting:

The business of the Company is conducted in accordance with carefully formulated strategies, budgets and business plans which set out clear objectives. Performance against the objectives is reviewed and discussed by the management team. Any issues arising from these objectives are discussed by the Board Committees, which are ultimately reported to the Board. This is aimed at ensuring close monitoring of performance trends, forecasts as well as actual performance against budgets.

Board Charter

The Board has in place a Board charter approved by the Board of Directors which facilitates the full and free exercise of professional competencies and ensures the effectiveness of each Director's contribution, consistent with the standards of independent judgement, ethics and integrity which the Directors are expected to observe.

Appointment and Removal of Directors

The Board of Directors are appointed by the respective shareholders.

Induction and Training of Directors

New Board members are inducted upon appointment and the legal and regulatory texts associated with the Company's particulars, deriving from the memorandum and Articles of Association, Board's operating rules and procedures, and any other issues necessary for proper discharge of duties provided. They are also trained on corporate governance to enhance their skills.

Code of conduct and Ethics

In accordance with the principles of good corporate governance, each director undertakes to:

a) To act first, foremost, and always in the best interest of the Company and not for their own collateral purpose.
b) To exercise his/her power in the executive duties in outmost good faith.
c) To act with due care, a prudent person would take when acting on their own behalf.
d) That in arriving at a decision on any issue, he/she shall strive to ensure that the decision is in the best interest of the Company and is not driven by any other interest.
e) Subscribe to the Company Core values to always act in the interest of the Company by promoting the effective and responsible use of resources for the benefit of the Company and commits to upholding them and ensuring their implementation.
f) Take into account not only the possible financial impact of their decisions, but also their consequences for sustainable development, their effect on relations with stakeholders and the general interest of communities where the Company operates.
g) Meet the leadership and integrity requirements of responsible leadership, code of conduct and financial probity of a director in accordance with the Companies Act and Memorandum and Articles of Association of the Company.
h) Preserve his or her independence of analysis, judgement, decision and action and to resist any pressure, direct or indirect, whether by other Directors, member groups, creditors, suppliers and any third party.

Conflict of Interest

Each Board of Director undertakes to disclose to the Board fully and immediately it comes to his/her attention any real or potential conflict of interest direct or indirect, which they may have. A Director with such a conflict shall not participate in any discussion of any such topic or vote on it.

Board Remuneration

The remuneration of the Board of Directors shall be as per the regulations approved by the Government from time to time. The Directors shall also be paid such travelling, subsistence and other reasonable expenses incurred by them in attending, from their usual place of residence and returning from any meetings in connection with the business of the Company according to the rates approved by the Government of Kenya from time to time.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

The Company's performance during the financial year is as tabulated below:

I. OPERATIONAL PERFORMANCE

During the year ended June 30, 2022, the Company faced stiff competition from other distillers and imports leading to lower sales of compounded spirit and year against the budget. The low sales therefore affected profitability of the Company.

a. Molasses Procurement

The Company's operations mainly depend on the quantity of molasses that we procure from the sugar companies. During the financial year 2021/2022, the Company procured. 69,522 tons (2020/2021: 66,344) tons of molasses against a target of 65,000 tons.

b. Production

The Company produced 14,955 million litres of alcohol, 30 tons of ADY and 724 tons of Wet Yeast against the budget of 14.20 million litres of alcohol, 250 tons of ADY and 1,000 tons of Wet Yeast. The Company fell short of achieving the set production target for ADY and Wet Yeast due to stiff competition of imported instant yeast by bakeries. The Company performance in the last five years is a as tabulated below:

PRODUCTION	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
Alcohol "000: Lts	4,863	11,120	13,565	13,874	14,955
% of Installed Capacity	27%	62%	75%	77%	83%
ADY (Tons)	67	70	280	39	30
% of Installed Capacity	6%	6%	23%	3%	3%
Wet Yeast (Tons)	868	805	740	603	724
Carbon dioxide	51	83	42	399	458
Compounded Spirit	31,770	24,984	10,574	-	16,147

c. Sales

The Company sold 15.128 million litres of alcohol, 29 tons of ADY and 724 tons of Wet Yeast against the budget of 14.20 million litres of alcohol, 250 tons of ADY and 1,000 tons of Wet Yeast. The Company sales performance is as tabulated below:

SALES					
Alcohol "000: Lts	3,686	10,454	13,216	13,495	15,128
% of Installed Capacity	20%	58%	73%	75%	84%
ADY (Tons)	92	66	65	39	29
% of Installed Capacity	8%	6%	5%	3%	2%
Wet Yeast (Tons)	868	805	740	603	724
Carbon dioxide	51	94	42	399	458
Compounded Spirit	27,501	29,408	9,950	2,675	15,021

II. FINANCIAL PERFORMANCE

The Company's performance in the last five years is as tabulated below:

AGRO CHEMICAL AND FOOD COMPANY LIMITED INCOME STATEMENT FOR THE LAST FIVE YEARS					
	2017-2018	**2018-2019**	**2019-2020**	**2020/2021**	**2021/2022**
SALES	615,924,689	1,212,743,816	1,583,821,062	1,509,691,352	1,683,768,679
OTHER INCOME	84,300,110	60,225,037	70,515,720	63,607,209	71,363,079
TOTAL INCOME	700,224,799	1,272,968,854	1,654,336,782	1,573,298,562	1,755,131,758
COST OF SALES					
Materials, Energy& Packing	548,575,360	791,688,300	944,479,991	788,746,081	1,054,044,833
Direct Salaries,Wages& Benefits	244,009,523	253,749,976	257,399,082	266,364,713	263,403,475
Plant Maintenance & Other Factory Overh	56,260,162	76,022,914	121,053,750	102,221,019	86,890,332
Selling and distribution	6,225,917	6,821,922	5,911,640	4,792,169	5,728,212
Excise duty	36,356,400	37,081,379	13,942,110	4,355,148	24,552,275
Contract Bottling expenses	12,049				
Stock Adjustments	(93,539,332)	-	-		
TOTAL COST OF SALES / DIRECT COSTS	797,900,079	1,165,364,491	1,342,786,573	1,166,479,131	1,434,619,126
GROSS PROFIT/(LOSS)	(97,675,279)	107,604,363	311,550,209	406,819,431	320,512,632
ADMINISTRATION EXPENSES	94,279,557	99,983,044	92,145,938	95,357,407	89,528,318
ESTABLISHMENT EXPENSES	16,977,858	11,592,120	17,112,455	16,689,168	19,903,746
FINANCE EXPENSES	378,687	816,496	2,741,413	777,043	360,498
STAFF COSTS	104,902,823	109,403,499	110,461,382	114,156,306	113,174,549
	216,538,925	221,795,158	222,461,188	226,979,924	222,967,112
PROFIT \ (LOSS) BEFORE LOAN INTEREST & DEPRICIATION	(314,214,205)	(114,190,795)	89,089,022	179,839,507	97,545,520
DEPRECIATION	102,774,804	106,022,879	107,488,533	110,863,972	100,631,130
AMORTIZATION	5,446,437	5,446,437	2,015,522	98,325	4,103,250
PROFIT (LOSS) BEFORE LOAN INTEREST,TAX AND EXCHANGE	(422,435,446)	(225,660,111)	(20,415,034)	68,877,210	(7,188,860)
(GAIN)/ LOSS					
INTEREST ON LOANS	275,530,591	278,947,083	284,430,073	294,966,325	306,712,978
PROFIT / (LOSS) BEFORE TAX	**(697,966,036)**	**(504,607,193)**	**(304,845,107)**	**(226,089,115)**	**(313,901,838)**
TAXATION	16,846,580	16,233,798	10,960,066	11,050,261	7,172,362
PROFIT / (LOSS) AFTER TAX	(714,812,616)	(520,840,991)	(315,805,173)	(237,139,376)	(321,074,200)

III. PROJECTS OR INVESTMENTS

During the year, the Company implemented projects aimed at improving profitability as per the approved budget and strategic plan. The Company is currently implementing the CSTR project that will enhance biogas generation at the factory hence reduce the fuel oil consumption.

IV. COMPLIANCE WITH STATUTORY REQUIREMENTS

During the financial year, the Company complied with all the statutory requirements and remitted all taxes due in good time, there was no penalty for failure to comply with statutory requirements.

V. CHALLENGES FACING THE COMPANY

The Company faces challenges in operations as enumerated below:

- Unstable supply of molasses
- Cheap alcohol in the spirits market
- Competition from other distilleries
- Slow Privatization process
- Negative Share Capital/Equity
- High Cost of major inputs – Molasses, fuel oil and chemicals.

VI. MATERIAL ARREARS IN STATUTORY AND OTHER FINANCIAL OBLIGATIONS

The Company has no material arrears in Statutory obligations and all obligations were remitted in time. However due to li challenges the Company did not repay the GOK loan during the year and the loan balance stood at 10,237,918,611.

IX. ENVIROMENTAL AND SUSTAINABILITY REPORTING

Agro Chemical exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer/ Citizen first, delivering relevant goods and services, and improving operational excellence. Below is an outline of the organization's policies and activities that promote sustainability.

I. SUSTAINABILITY STRATEGY AND PROFILE

The company's sustainability strategy aims to create long term value for the firm, its stakeholders and the wider society. ACFC aims to build a culture of sustainability with its employees and all its stakeholders as identified in its strategic plan for 2018-2023. The company has developed a sustainability policy covering economic, environmental and social pillars which it continues to implement while carrying out its operations.

a. Molasses Sourcing

ACFC operates in a dynamic environment and hence supply of its main raw material, molasses is not assured and depends largely on unpredictable weather conditions. During the year 2021/22 the company was able to achieve adequate quantities of molasses as a result of partnerships with both public and private sugar millers.

b. Ethanol Market

Alcohol market in which ACFC operates has suffered from adverse competition from emerging distilleries as well as cheap imports from neighbouring countries. During the year the company was able to achieve the reported turnover as a result of production of premium spirits as well as ranking of the company as a strategic spirit supplier by the company's major customers. Since ACFC operates a standalone distillery, it continues to experience cost disadvantages compared to its peers in the alcohol market.

c. Enhanced Product Range

In order to achieve financial sustainability, ACFC considers diversification as key in its strategic plan. The Company has continued to launch new products . We are hopeful that the new initiatives will pick up in the coming years leading to enhanced company revenues and profitability.

d. Continuous Stirrer Tank Reactor

The construction of a new CSTR biogas plant worth 150 million is on going. The plant once completed will generate adequate biogas for running the boiler leading to reduced cost of production. This initiative will further assist in the improvement of the company's effluent management system.

e. ENVIRONMENTAL PERFORMANCE REPORT FOR ACFC

ACFC environmental sustainability practices are guided by the national environmental performance and environmental sustainability performance contracting requirements. The Company has developed an internal environmental policy statement to guide its day today activities in view of managing the environmental aspects that may emanate from its operations.

In line with its environmental policy statement the Company focused in following key areas:

II. ACFC has installed an operational waste management strategy for:

a. Liquid waste (effluent) where it has installed a functional effluent treatment plant. It has also taken an opportunity to generate biogas (a green technology) for internal generation of steam thus compensating on reliance in high density fuel oil.

b. In solid waste management, ACFC has engaged a NEMA contracted waste handling external service provider to ensure safe solid waste management. The Company is already implementing the best available practices i.e. recycle, reuse, reduce and recover (4Rs)of solid waste management.

III. Environmental compliance

The Company has continually carried out plant annual statutory environmental audits, plant inspections and environmental impact assessments for new installations. Alongside these requirements the Company is also carrying out hazardous waste management through incineration. The Company continues to forward environmental sustainability report to NEMA on quarterly basis as per the PC guidelines.

IV EMPLOYEE WELFARE

We developed a new Human Resource Policies & Procedure Manual, Career guidelines and remuneration structure that governs the process of recruitment, Gender mainstreaming, staff skills development, staff performance appraisal, reward & sanction system.

Recruitment Procedure:

This process is usually done based on the guidelines outlined on section 2.16 of the Human Resource Policies and Procedures Manual.
This entails development of a Human Resource plan based on comprehensive job analysis and which are reviewed every year to address emerging issues and needs.

All vacant positions within the establishment, which are to be filled substantively originate from the various HODs supported by good justification for the recruitment and confirmation that the positions are not only within the approved establishment but also fully funded within the budget.

Gender mainstreaming & persons with disability

The Company observes gender mainstreaming balance on appointment, promotion and ensure that a minimum of a third (1/3) are of either gender with due consideration on Disability or Diversity.

Staff Performance Appraisal System

This process is guided by section 8. of the Human resource policy .it outlines processes involved in work planning, setting of agreed performance targets, feedback, and reporting. It is linked to other human resource systems and processes including employee development, career guidelines, placement, rewards, and sanctions.

The overall objective of the appraisal system is to manage and improve performance by enabling a higher level of members of staff participation and involvement in planning, delivery, and evaluation of work performance.

This framework therefore establishes a basis for rewarding exemplary performance and administering sanctions for poor performance, motivating employees to have positive attitude to work and to enhance productivity in the Company.

Training /Skills Development

As embedded on section 9 of the Human Resource Policy Manual and Career Progression manual, the company continuously upgrade employee's core competencies, knowledge, skills, and attitudes to ensure that their performance meets and/or exceeds the minimum expectations and benchmarks of best practices to ensure effective delivery of its broad mandate. This helps employees enhance their efficiency and effectiveness, gain competencies and skills, desired work ethics and values and corporate culture, in preparation for future technological and structural needs.

Health, Safety

In line with section 14 of the HR. policy, The Company commits itself to the achievement of the highest standards of health and safety in the workplace, and the elimination or minimization of health and safety hazards and risks that may affect its employees. In this regard, it will implement policies and programs that assure their protection from such hazards and disasters. The policies and programs will be implemented in compliance with the provisions of Occupational Safety and Health Act, 2007 and other Labour Laws. In compliance the Company obtains workplace certificate from the Director of Occupational safety and health (DOSH).

V. Market place practices

The Company has in place a service charter that enables it to achieve the highest possible level of customer satisfaction. The service charter provides for fair pricing mechanism by considering competitor's prices as well as production costs incurred by the company while setting prices of goods and services.

The Company regularly meets competitors in order to come up with base prices of its goods and services. The Company has in place an anti-corruption policy wherein people are encouraged to report corruption practices through the recommended channels.

a. Responsible competition practice

ACFC upholds ethical marketing practices in its endeavours to ensure sustainable business growth. The product packaging adopted by the Company are always environmentally friendly.

While selling spirits to customers the Company always ensures adherence to the existing laws and regulations governing each product. All product labels are approved by KEBS with each product lines subjected to stringent quality checks since the Company considers quality as key selling point to its customers.

Over the years, the Company has been involved in CSR activities with annual budget allocation to support Community programs as part of its ethical behaviour within the society.

Through various medias, the Company places advertisements that are aimed at ensuring disclosure of critical information on its products including inputs used in the production process and at all times making sure that no such adverts are considered offensive to competitors.

b. Responsible Supply chain and supplier relations

The Company considers the environmental and human impact on our products' journey through the supply chain, from raw materials sourcing to production, storage, delivery, and even transportation. The goal is to minimize environmental harm from factors like energy usage, water consumption and waste production while having a positive impact on the people and communities in and around our operations.

Dealing with our suppliers on sustainability

- Use of sustainable packaging material -all the products are packaged in cartons which can be recycled back to use for reuse,
- Good payment terms to molasses transporters and other suppliers- the credit policy of 30 days after delivery is always adhered to. As such there is timely delivery of goods, works and services to the factory.
- Procurement from vulnerable members of the society. There is allocation of 30 % of procurement budget to this group of the local community which has created good relationship between the organization and the local community.
- Pre-qualification of suppliers-all suppliers are evaluated before they are incorporated in our supplier data base and re-evaluated periodically to ensure that the company deals with only those suppliers who practice ethical trading.
- Local sourcing of goods works, and services -Access to 40% of procurement budget is spent on local procurement. As this improves the bottom line as cost of transport from overseas and custom duty is avoided.

Product stewardship

ACFC endeavours to safeguard consumer rights and interests through compliance with all the relevant legislations. We provide annual forums for our customers and also arrange visits to their premises so as to be able to address their concerns.

In addition, we maintain customer complaints handling infrastructure with seamless feed-back system for purposes of ensuring prompt response to customer issues.

Corporate Social Responsibility/Community Engagements

The Company continued to actively participate in various projects as per our Corporate Social Responsibility (CSR) policy.

The Company continues to run Muhoroni Furaha Primary School which is fully funded by the Company. The school enroll children from the employees and the neighbouring community and is one of the top performing schools in the Country.

X. DIRECTORS' REPORT

The Directors present their report, statement of profit & loss and other comprehensive income, the statement of financial position, statement of changes in equity and statement of cash flows for the year ended 30th June 2022.

Since the beginning of the year, no director has received or become entitled to receive a benefit which is to be disclosed, by reason of a contract made by the company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except for salaries, bonuses and other benefits as disclosed in the financial statements

Principal Activities

The Company produces Extra Neutral Spirit, Kenya Methylated Spirit, Industrial Methylated Spirit, Active Dry Yeast, and fresh Wet yeast from sugar cane molasses. The company also produces bottled spirits and carbon dioxide.

Results

The results of the Company for the year ended June 30, 2022 are as set out on page 36. Below is a summary of the Company's performance during the year.

During the year 2021/2022, the Company produced 14,955million litres of alcohol, 30 tons of Active Dry Yeast, 724 tons of Wet Yeast and realized a turnover of Ksh. 1,683,768,679 (2020/2021 1,509,691,352). The operating loss before interest on loans was Kshs. 7,186,860 (2020/2021: of Kshs. 68,877,210). However, after charging interest on loan of Kshs. 306,712,987 (2020/2021: Kshs. 294,966,325), the Company registered a net loss of Kshs. 313,901,838 (2020/2021: loss of Kshs. 226,089,115). After charging corporate tax of kshs. 7,172,362 (2020/2021 Kshs. 11,050,261) the company registered a loss of Kshs. 321,074,200 (2019/2021) loss of Kshs. 237,139,376).

Dividends

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

Directors

The members of the Board of Directors who served during the year are shown on page 6. In accordance with clause 101 of the Company's Memorandum of Association the directors are nominated by the shareholders.

Auditors

The Auditor General is responsible for the Statutory Audit of the Company for the year ended June 30,2021 in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By order of the Board

SHARON CHERUIYOT
COMPANY SECRETARY
Date: ....

XI. REPORT OF THE AUDITOR-GENERAL ON AGRO-CHEMICAL AND FOOD COMPANY LIMITED FOR THE YEAR ENDED 30, JUNE 2022

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

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REPORT OF THE AUDITOR-GENERAL ON AGRO CHEMICAL AND FOOD COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Agro Chemical and Food Company Limited set out on pages 36 to 84, which comprise of the statement of financial position as at 30 June, 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. 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.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Agro Chemical and Food Company Limited as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Public Finance Management Act, 2012 and the Companies Act, 2015.

Basis for Adverse Opinion

1. Lack of Audit Trail

The statement of profit or loss and other comprehensive income and as disclosed in Note 11 to the financial statements reflects administrative costs of Kshs.223,308,072. Review of the ledgers provided for audit together with the other supporting documents revealed that the ledgers did not contain minimum disclosures such as payee and cheque numbers (where applicable) and therefore it was not possible to have an audit trail of the transactions captured in the ledger.

In the circumstances, the completeness and accuracy of the balances reported in the financial statements could not be confirmed.

2. Unsupported Cost of Sales

The statement of profit and loss and other comprehensive income and as disclosed in Note 7 to the financial statements reflects an amount of Kshs.1,428,890,914 relating to cost of sales which includes cost of sales on materials, energy and packing of Kshs.1,054,044,833, out of which Kshs.922,801,269 was cost incurred in producing 15,006,801 litres of Extra Neutral Spirit (ENS) Premium. Although Management provided a list of cost of sales summary amounting to Kshs.922,801,269, the details on how the costs were accumulated was not provided for audit. It was therefore not possible to attribute the direct costs of Kshs.922,801,269 to the 15,006,801 litres of extra neutral spirit produced in the year. In addition, the direct unit cost per litre could not be determined. Further, the cost of the spirit produced during the year has been fully accounted for as cost of sales while some element was still being held in the closing stocks.

In the circumstances, the accuracy and completeness of the cost of sales amount of Kshs.922,801,269 could not be confirmed.

3. Receivables

The statement of financial position reflects a receivables balance of Kshs.823,526,070.

The following was observed in respect to receivables during the year;

3.1 Unsupported Receivables

As disclosed in Note 18 to the financial statements the receivables balance comprise of trade receivables, prepayments, other debtors and creditors with debit balances of Kshs.579,008,276, Kshs.16,787,572, Kshs.211,518,192 and Kshs.82,400,571 respectively. However, although a summary listing of the debtors has been presented for audit, the supporting ledger details of the debtors' balances, showing the component balances for each debtor, together with the relevant date when the debt was incurred was not provided for audit.

In the circumstances, the completeness, accuracy and the recoverability of the debtors amounting to Kshs.823,526,070 could not be confirmed.

3.2 Long Outstanding Receivables

Review of a sample of receivables amounting to Kshs.178,078,757 revealed that all of them were more than 60 days old with receivable from Kimsway Investment, Univac Traders Ltd, Oleo Chemicals, Kenya Wine Agencies and Africa Spirits Limited of Kshs.449,960, Kshs.464,628, Kshs.612,773, Kshs.4,988,617 and Kshs.61,711,910 respectively, all totalling to Kshs.68,227,888 being outstanding for more than three (3) years.

In the circumstances, the recoverability of receivables amounting to Kshs.68,227,889 is doubtful.

4. Unconfirmed Loan Balances

The statement of financial position, as disclosed in Note 26 to the financial statements reflects loans balance of Kshs.10,237,918,611. The loan balance comprises of Paris Club rescheduled loan of Kshs.2,941,884,000, accrued interest on Paris Club loan of Kshs.6,369,178,806 and interest on GOK paid Loan of Kshs.926,855,805. However, the Paris Club rescheduled loan remained constant at Kshs.2,941,884,000 and dates of borrowing and repayment period were not disclosed. In addition, the accrued interest of Kshs.6,369,178,806 on the loan was not paid and no reason was provided for non-repayment.

In addition, review of the agreement between the Company and The National Treasury with respect of interest on GOK paid loan indicates that, The National Treasury was to re-pay loan arrears of Kshs.2,941,884,000 on behalf of the Company. In turn, the Company was to repay the loan to the Ministry of Finance through a standing order in fourteen equal consecutive semi-annual instalments on the 15th day of June and December each year. However, there is no evidence that the Company complied with the terms of the agreement. Further, the Company stopped servicing the GOK loan in 2018 contrary to The National Treasury guidelines vide Circular No.14/2018 dated 27 November, 2018 which required entities to prioritize debt servicing as a first charge on their revenues. In addition, no evidence was provided to reveal the balances of the principal loan and the correct accrued interest as at 30 June, 2022.

In the circumstances, the accuracy and completeness of the loan balance of Kshs.10,237,918,611 could not be confirmed.

5. Unreconciled Variances between the General Ledger and the Financial Statements' Balances

Review of the financial statements' balances revealed variances between the financial statements and the ledgers presented for audit as detailed below:

	Details	Balance as per the Financial Statements in (Kshs.)	Balance as per the Ledger in (Kshs.)	Variances (Kshs.)
1.	Other Income	24,475,871	21,740,382	2,735,489
2.	Finance Income	52,256,290	46,697,397	5,558,893
3.	Cost of Sales	1,428,890,914	1,428,820,120	70,794
4.	Administration Costs	223,308,072	223,357,042	48,970
5.	Finance Costs	307,058,537	306,712,978	345,559
6.	Depreciation of Property, Plant & Equipment	100,631,130	100,304,980	326,150
7.	Property, Plant & Equipment	2,627,485,728	2,626,631,728	854,000
8.	Inventories & Work in Progress	190,795,277	190,797,820	2,543
9.	Receivables	823,526,070	823,545,789	(19,719)
10.	Accumulated Deficit	8,925,197,695	8,922,373,038	2,824,657
11.	Trade and Other Payables	648,901,800	648,999,300	(97,500)

No explanation or reconciliations were provided to explain these differences.

In the circumstances, the accuracy and completeness of the balances disclosed in these financial statements could not be confirmed.

6. Unreconciled Variances in Inventory Balances

The statement of financial position and as disclosed in Note 17 to the financial statements reflects a balance of Kshs.190,795,277 relating to inventories and work in progress. However, the physical stock take report indicated net variances of Kshs.1,532,288 with actual stock take which was adjusted as losses against the inventories balance. Management explained that investigations were to be done for necessary actions to be taken. However, no action has been taken to investigate the variance.

In the circumstances, the accuracy of inventories and work in progress balance of Kshs.190,795,277 could not be confirmed.

7. Unsupported Trade and Other Payables

The statement of financial position, as disclosed in Note 24 to the financial statements reflects a balance of Kshs.648,999,300 in respect of trade and other payables. The balance includes unsupported balances of Kshs.200,400,680, Kshs.30,098,116, Kshs.270,146,276 and Kshs.20,700,057 in respect of advances from debtors, accruals control, excise duty payable and goods received not invoiced respectively.

In addition, Management provided aging analysis for payables amounting to Kshs.3,901,676 only. The period for which payables amounting to Kshs.645,098,147 had been outstanding could not be confirmed.

In the circumstances, the completeness and accuracy of the trade and other payables balance of Kshs.648,999,300 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Agro Chemical and Food Company Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Budgetary Controls and Performance

The Company's revenue budget amounted to Kshs.2,090,655,150 against actual receipts of Kshs1,755,131,758 resulting in a budget deficit of Kshs.335,523,392 or 16% of the budget. Similarly, the Company budgeted to spend a total of Kshs.721,855,728 against the actual expenditure of Kshs.641,586,832 resulting in an overall under-expenditure of Kshs.80,268,896 or 11% of the budget.

In the circumstances, the budget deficit and under-expenditure may have affected the planned activities and may have impacted negatively on service delivery to the public.

2. Uncertainty on Going Concern of the Company

During the year under review, the Company recorded net loss of Kshs.313,901,838 which increased the accumulated losses to Kshs.8,925,197,695 up from Kshs.8,604,123,495 in the previous year. In addition, the current liabilities balance of Kshs.10,921,928,086 exceeded the current assets balance of Kshs.1,806,723,283 resulting to a negative working capital of Kshs.9,115,204,803.

In the circumstances, in the absence of support from the Government and creditors, the ability of the Company to continue as a going concern is doubtful.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Incomplete Bio Digester

The statement of financial position reflects a balance of Kshs.2,267,485,728 in respect to property, plant and equipment which, as disclosed in Note 15A to the financial statements includes capital work in progress of Kshs.170,927,597. This amount in turn includes Kshs.124,647,728 relating to the effluent treatment plant. The Company signed a contract with a contractor on 20 August, 2020 for an effluent treatment plant (engineering, supply, erection, installation, supervision, testing and commissioning of a biomethamation reactor) at a contract price of USD 825,000 (approximately Kshs.89,925,000). The eleven (11) months contract was to be executed between 20 August, 2020 and 20 July, 2021. Review of records revealed that a total of USD 553,428.50 (Kshs.63,230,420.65) had been paid to the contractor as at 30 June, 2022 and the performance security provided by the contractor from Standard Chartered Bank expired on 31 August, 2021.

Further, the contract completion date had been extended to 15 August, 2022 and later to 2nd week of February, 2023 and now to June, 2023. Physical verification in February, 2023 revealed that the project was incomplete.

In the circumstances, value for money for the expenditure of USD 553,428.50 (Kshs.63,230,420.65) which had already been spent on this project could not be confirmed and the Management was in breach of the law.

2. Non-Compliance to One Third Basic Salary Rule

Review of the payroll for the month of June, 2022 revealed that one hundred and thirty-nine (139) employees of the Company earned net salaries that were less than a third of their respective gross basic salaries. This is contrary to Section 19(3) of the Employment Act, 2007 which provides that the total amount of all deductions made by an employer from the wages of his employee at any no time shall not exceed two-thirds of such wages.

In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion, Basis for Conclusion on

Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

i. 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;

ii. in my opinion, adequate accounting records have not been kept by the Company, so far as appears from the examination of those records; and,

iii. The Company's financial statements are not in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern as a basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

CPA Nancy Gathungu, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

14 June, 2023

XII. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act and Section 81 of the Public Finance Management Act, 2012 require the Directors to prepare financial statements in respect of the Company which give a true and fair view of the state of affairs of the Company at the end of the financial year and the operating results of the Company for that year. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the affairs of the Company for and as at the end of the financial year ended on June 30, 2022. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act and PFM Act, 2012. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended June 30, 2022, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial controls.

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

Approval of the financial statements

The Company's financial statement were approved by the Board of Directors on 26th September, 2022, and signed on its behalf by:

MOHAMED BULLE
CHAIRMAN

TIMOTHY JOMO OGWANG
ACTING MANAGING DIRECTOR

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2022

Revenues	Notes	2022 Kshs	2021 Kshs
Sales / Turnover	6	1,683,768,679	1,509,691,352
Cost of Sales	7	1,428,890,914	1,161,686,961
Gross Profit		**254,877,765**	**348,004,391**
Other Income			
Gain/(Loss) on Disposal of non financial assets	8	925,300	3,963,842
Other Income	9	24,475,871	22,956,560
Finance Income	10	46,697,397	37,729,996
TOTAL REVENUES		**72,098,568**	**64,650,398**
OPERATING EXPENSES			
Administrative costs	11	223,357,042	226,777,594
Selling and Administration Costs	12	5,728,212	4,792,169
Finance Costs	13	307,058,537	296,211,844
Depreciation of property, plant and equipment	15 (A)	100,631,130	110,863,972
Amortization of intangible assets	16	4,103,250	98,325
TOTAL OPERATING EXPENSES		**640,878,171**	**638,743,904**
OPERATING PROFITS / (LOSS)		**(313,901,838)**	**(226,089,115)**
INCOME TAX			
Taxation Current Year	14	7,172,362	11,050,261
TOTAL INCOME TAX		**7,172,362**	**11,050,261**
Net Profit / Loss after tax		**(321,074,200)**	**(237,139,376)**

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2022

		2021-2022	2020-2021
ASSETS		**KSHS**	**KSHS**
NON-CURRENT ASSETS	**NOTES**	**(12 Months)**	**(12 Months)**
Property, Plant and Equipment	**15(A)**	2,627,485,728	2,241,106,684
Intangible Assets	**16**	12,309,750	393,291
CURRENT ASSETS			
Inventories and Work In Progress	**17**	190,795,277	260,982,815
Receivables	**18**	823,526,070	827,100,297
Short Term Deposits	**19**	657,625,500	512,835,716
Cash and cash equivalents	**20**	134,776,436	151,942,270
		1,806,723,283	**1,752,861,099**
TOTAL ASSETS		**4,446,518,761**	**3,994,361,075**
EQUITY			
Share Capital	**21**	60,000,000	60,000,000
Capital Reserves	**22**	2,389,788,369	2,000,165,592
Accumulated deficit	**23**	(8,925,197,695)	(8,604,123,495)
TOTAL EQUITY		**(6,475,409,325)**	**(6,543,957,903)**
LIABILITES			
CURRENT LIABILITIES			
Trade and Other Payables	**24**	648,999,300	565,375,090
Provisions	**25**	22,727,711	26,212,485
Loans	**26**	10,237,918,611	9,931,205,632
Tax Payable	**27**	12,282,465	15,525,770
TOTAL LIABILITIES		**10,921,928,086**	**10,538,318,978**
TOTAL EQUITY AND LIABILITIES		**4,446,518,761**	**3,994,361,075**

The financial statements were approved by the Board of Directors on September 26, 2022 and signed on their behalf by:

Timothy Jomo Ogwang
Ag. Managing Director
And Chief Executive

Edwin Owiti
General Manager Finance
and ICT
ICPAK M/NO. 6237

Mohammed M. Bulle
CHAIRMAN OF THE
BOARD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

For the year ended 30th June 2022	**Share Capital**	**Revaluation Reserve ****	**Revenue Reserves**	**Totals**
	(Kshs)	(Kshs)	(Kshs)	(Kshs)
As at 1st July 2020	60,000,000	2,000,165,592	(8,366,984,119)	(6,306,818,527)
Profit for the year	-	-	(237,139,376)	(237,139,376)
As at 30th June 2021	**60,000,000**	**2,000,165,592**	**(8,604,123,494)**	**(6,543,957,902)**
As at 1st July 2021	60,000,000	2,000,165,592	(8,604,123,494)	(6,543,957,902)
				-
Profit for the year			(321,074,200)	(321,074,200)
Revaluation		389,622,778		389,622,778
			-	-
As at 30th June 2022	**60,000,000**	**2,389,788,370**	**(8,925,197,694)**	**(6,475,409,324)**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2022

		2022	2021
		KSHS.	KSHS.
Cash Generated from / (Used in) Operations			
Cash from operations	**29**	250,521,422	3,577,363
IneInterest paid			
Dividends paid			
Taxation Paid	**27**	(10,415,619)	(10,960,066)
Net Cash generated from / (Used in) operating activities		**240,105,803**	**(7,382,703)**
INVESTMENT ACIVITIES			
Purchase of assets	**15(A)**	(113,507,105)	(83,033,828)
Purchase of intangible assets		-	(491,616)
Disposal of Asset - Sales Proceeds		1,025,300	5,786,000
Net Cash generated from / (Used in) investing activities		**(112,481,805)**	**(77,739,444)**
FINANCING ACTIVITIES			
			-
Net Cash generated from / (Used in) financing activities		**-**	**-**
Net Increase/(decrease) in cash and cash equivalents(a+b+c)		**127,623,998**	**(85,122,147)**
Cash and cash equivalent at the beginning of the year		664,777,997	749,900,143
Cash and cash equivalent at the end of the Year	**29(C)**	**792,401,995**	**664,777,997**

STATEMENT OF COMPARISON OF BUDGET AGAINST ACTUAL AMOUNT FOR THE YEAR ENDED 30TH JUNE 2022

Revenue	Budget	Actual Outcome	Performance Diff	Performance %	Remarks
SALES	2,031,955,150	1,683,768,679	(348,186,471)	-17%	Unfavourble
PROFIT / (LOSS) ON SALE OF FIXED ASSETS	5,000,000	925,300	(4,074,700)	-81%	Unfavourble
INTEREST ON TREASURY BILLS & FIXED DEPOSITS	38,000,000	46,697,397	8,697,397	22.9%	Favourable
RENT PAID BY EMPLOYEES	6,200,000	6,575,857	375,857	6%	Favourable
MISCELLANEOUS INCOME	9,500,000	17,164,525	7,664,525	81%	Favourable
TOTAL INCOME	**2,090,655,150**	**1,755,131,758**	**(335,523,392)**	-16%	Unfavourble
Expenses					
Cost of sales					
Materials, Energy& Packing	967,539,350	1,054,044,833	(86,505,482)	109%	Unfavourble
Direct Salaries, Wages& Benefits	335,008,353	263,403,475	71,604,879	79%	Favourable
Plant Maintenance & Other Factory Overheads	78,770,500	86,890,332	(8,119,832)	110%	Unfavourble
Selling and Distribution	76,464,000	5,728,212	70,735,788	7%	Favourable
Excise Duty	5,453,800	24,552,275	(19,098,475)	450%	Unfavourble
	-		-		
		-			
TOTAL COST OF SALES / DIRECT COSTS	**1,463,236,004**	**1,434,619,126**	**28,616,878**	**98%**	Favourable
Gross Profit	**627,419,146**	**320,512,632**	**(306,906,514)**		
Expenses					
ADMINISTRATION EXPENSES	319,981,403	222,967,112	97,014,291	70%	Favourable
Depreciation	125,583,346	104,734,380	20,848,966	83%	Favourable
INTEREST ON LOANS	276,290,979	306,712,978	(30,421,999)	111%	UnFavourable
COOPORATION TAX	-	7,172,362	(7,172,362)		
Total Expenduture	**721,855,728**	**641,586,832**	**80,268,896**	89%	Favourable
Surplus	**(94,436,581)**	**(321,074,200)**	**(226,637,618)**		UnFavourable

An explanation of material differences between Budget and actual is as summarized below:

a) Sales
During the current year. The sale of ADY, Carbon dioxide, Compounded spirits and Wet yeast also decreased due to intense competition.

b) Plant, Maintenance and Other factory Costs
The increase in plant and maintenance costs is as a result of plant maintenance , desludging of lagoons and other factory expenses.

c) Materials energy and packing
The increase in Material, energy and packing costs is mainly due to increase in fuel oil consumption due to non functioning of the bulk volume fermenter.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2022

1. GENERAL INFORMATION

Agro Chemical and Food Company Limited was incorporated under the Kenyan Companies Act Cap 486. The address of its registered office is as follows:

Registered Office
Jeevan Bharati Building
7th Floor, Harambee Avenue
P.O. Box 41175 –00100
Nairobi, Kenya
Telephone 020-2230083
Principal place of Business

Muhoroni Factory
Muhoroni Town
P.O. Box 18-40107
Muhoroni, Kenya
Telephone +254 020 2334020/1

Principal Activities
The Company produces Extra Neutral Spirit, Kenya Methylated Spirit, Industrial Methylated Spirit, Active Dry Yeast, and fresh Wet yeast from sugar cane molasses. The company also produces bottled spirits and carbon dioxide.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Statement of Compliance

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity.

The financial statements have been prepared in accordance with the Company Act, PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

Going Concern

The Company made a loss after tax of Kshs. 321,074,200 (2020/2021: Kshs. 237,139,376) during the year which was added to accumulated losses totaling Kshs. 8,925,197,695 (2020/2021: 8,604,123,495). In addition, the Company was in a net current liability position of Kshs. 9,115,204,804 (2020/2021: Kshs. 8,785,457,879). These and other conditions indicate doubt as to the going concern status of the company. Management has put in place the following measures to address the situation:

- Presented the Company restructuring proposal to the parent Ministry and National Treasury to restructure the Company's balance sheet.
- Written to the National Treasury through the parent Ministry to write off the loan and freeze interest charge on its loan.
- Invested in new projects such as, Carbon dioxide and Compounded spirits to improve the profitability of the Company.
- Invested in the biogas driven boiler to reduce the cost of energy and fuel used in the boiler.
- Introduced austerity measures which have led to reduced costs.
- Prudent management of excess funds and investing the same in interest earning deposits.
- Utilized internally generated funds to finance its activities and investments as opposed to external borrowings.
- Introduced new product lines like Agro Plus, hand sanitizers and Mediplus spirits to improve the bottom line.

Based on the above, the directors believe that the company will continue in operational existence for at least 12 months from the date of these financial statements. The directors believe that it is appropriate to prepare the Company's financial statements on a going concern basis, which assumes that the Company will continue to meet its obligations as they fall due in the foreseeable future.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

i) New and mended standards and interpretations in issue effective in the year ended 30 June 2022.

TITLE	DESCRIPTION	EFFECTIVE DATE
Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)	The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)	The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IFRS 1 titled Subsidiary as a First-time Adopter	The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendment to IFRS 9 titled Fees in the '10 per cent' Test for De-recognition of Financial Liabilities	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of the application of the above they do not expect that there will be significant impact on the Company's financial statements.

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.

TITLE	DESCRIPTION	EFFECTIVE DATE
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)	The amendments, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 8- Accounting Policies, Errors and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the Company's financial statements.

III. Early adoption of standards
The Company did not early – adopt any new or amended standards in year 2021/2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue Recognition
Revenue is recognized to the extent that it is probable that future economic benefits will follow the Company and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the Company's activities net of Value added Tax (VAT), excise duty and discounts where applicable and when specific criteria have been met for each of the Company's activities as describe below:

i) Revenue from sale of spirits, yeast, carbon di-oxide and compounded spirits are recognized in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) Finance Income comprises interest receivable from bank deposit and is recognized in profit and loss on a time proportion basis using the effective interest rate method.

iii) Rental income is recognized in the income statement as it accrues using the effective interest implicit on rental agreement.

iv) Other income is recognized as it accrues.

b) Property plant and Equipment
All categories of property, plant and equipment are recorded at cost less accumulated depreciation and any impairment losses.

Certain categories of property plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued at periodic intervals usually after five years by independent external valuers. The basis on valuation is depreciated replacement cost.

Increases in the carrying amount arising on revaluation are credited to the statement of comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account. All other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items and are recognized in profit or loss in the income statement.

c) Depreciation and impairment of property, plant, and equipment
Freehold land and capital work in progress are not depreciated. Capital works in progress relates mainly to costs of ongoing but incomplete works on buildings and other civil works and installations.

Tangible property, plant and equipment are depreciated in the year of acquisition and no provision for depreciation is provided for in the year of disposal.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or re-valued amount to its residual value over its estimated useful life. The annual rates used are:

Leasehold Land	1.05%
Buildings	2.5%
Plant & Machinery	4.0%
Instrumentation & cooling units	4.0 %
Motor Vehicles	12.5% for re-valued items and 25.0% for additions thereafter.
Computers	33.0% for re-valued Assets & 25.0% for additions thereafter
Furniture and fixtures	15% for re-valued assets and 10% for additions thereafter.
Wet yeast Coolers	15%

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than the estimated recoverable. amount and an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

d) Intangible Assets

Intangible assets comprise the purchased computer software licenses which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year they are available for use usually over three years.

e) Amortization and Impairment of Intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of Computer Software of three years.

All Computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

f) Inventories

Stocks of alcohol, yeast,Co2 and all company products are stated at the lower of production cost and net realizable value. The costs of inventories comprise of purchase price, import duties, transportation and handling charge and its determined on the moving average price method.

g) Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

h) Taxation

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, at the reporting date in Kenya and generally taxable in income. Taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted with the tax legislation. Current corporate tax rate is 30.0% on adjusted profit. There is no tax liability pertaining to the business income in view of losses available for carry forward of Kshs. 6,387,235,414 (2020/2021 6,031,224,846).

Taxation on interest income as separate sources of income have been provided at 30% while taxation on rental income is at 10% based on the rental income earned for occupation of company houses by employees/staff

i) Deferred tax

Deferred tax liability is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying values for reporting purposes at the reporting date. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilized.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, short term deposits on call and high liquidity investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and various commercial banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

k) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

l) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

m) Retirement Benefits Obligations

The Company operates a defined contribution pension scheme for non-Unionisable staff. 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 later transferred to Employee Benefit Trustees Limited, "its subsidiary".

In accordance with the requirements of the Retirement Benefit Act 1997, the conversion approval by the Retirement Benefit Authority was granted on 30, June 2011 and the Trustee deed, Funds Management agreement, Investment policy agreement has been complied with. The accounts for 2021 have been audited and submitted to the Retirement Benefit Authority. The scheme had a total of 110 members composed of 92 active members and 18 deferred members. During the year, 3 members left the scheme. The scheme funds are managed independently of the Company's assets by ICEA Lion Life Assurance while the scheme administrator is Minet Insurance Company.

The scheme is funded by contributions from the employees and the Company. The employees contribute 10.0% of their basic salaries while the sponsor contributes 10.0% which totals to 20.0% of the basic salary. The Company's contribution to the scheme is charged to the income statement in the year to which they relate.

The Company and its employees also contribute to the National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act.

The Company's contribution to the National Social Security Fund is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month. The contributions are charged to the income statement in the year in which they relate.

n) Contract Gratuity

The Company has a fixed term of service with some of the employees. A contract gratuity of 31% of the basic pay earned over the contract period is paid at the end of the contract. The monetary liability is accrued at the end of each year based on the completed period of service.

o) Bonus Scheme

The Company operates a bonus scheme for its employees. The bonus is payable on achievement of annual performance targets and upon approval by the Parent Ministry and The National Treasury.

p) Provision for staff leave

Employees' entitlements to annual leave are recognized as they accrue to the employees. A provision is made for the estimated liability for annual leave not taken at the reporting date.

q) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re- measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

The current ruling exchange rate against the US$ was Kshs.120.5982 (2020/2021 Kshs. 106.5224) as at the reporting date.

r) Budget Information

The Company original budget for FY 2021-2022 was approved by the Board of Directors and subsequently approved by the National Treasury in compliance with the Section 11 of the Sate Corporations Act, Cap 446 and section 4 Part (3), of the legal notice No. 93 on state corporations (performance contracting) regulation 2004. The Company did not have any additional appropriations and the budget was implemented as approved during the financial year.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on Page on page 42 of these financial statements.

s) Comparative figures

Where necessary, comparative figures for the previous financial year have been adjusted to conform to the changes in presentation in the current year.

t) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2022.

u) Assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable, and the asset is available for sale in its present condition.

Non-current asset classified as held for sale are measured at the lower of the asset's previous carrying amount and the fair value less costs to sell.

v) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and reward of the ownership to the company as the lessee. All other leases are classified as operating leases.

w) Company as a lessor

Rental income from operating leases is recognized on the straight-line basis over the term of the relevant lease.

x) Company as a Lessee

Rentals payable under operating leases are charged to income on the straight-line basis over the term of the relevant lease. Any payment required to be made to the lessor by way of penalty, termination of leases before expiry of the lease period, is recognized in the year in which termination takes place.

y) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of that asset. Other borrowing costs are recognized as an expense in the period they are acquired.

z) Related Parties

The Company regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Company, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO, and senior managers. The Government of Kenya and The Mehta Group are also considered related parties by virtue of government support and Management support respectively.

aa. Research and Development expenditure

Expenditure on research and expenditure is recognized as an expense in the period in which it is incurred. Any internally generated intangible asset arising from development or from the development phase of an internal project) is recognized if and only if, all the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized an internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

bb. Financial Instruments

The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss account; loans and receivables; held-to-maturity investments; and available for sale assets. Management determines the appropriate classification of its investments at initial recognition.

cc. Financial Assets

The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss account; loans and receivables; held-to-maturity investments. and available for sale assets. Management determines the appropriate classification of its investments at initial recognition.

dd. Financial Assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for selling in the short term or if so, designated by management.

ee. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. They arise when the company provides money, goods, or services directly to a debtor with no intention of trading the receivable.

ff. Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold maturity. Where a sale occurs other than an insignificant amount of held-to- maturity assets, the entire category would be tainted and classified as available for sale.

gg. Available for sale financial assets

This category represents financial assets that are not.

(a) Financial assets at fair value through profit or loss
(b) Loans and receivables
(c) Financial assets held to maturity.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of “financial assets at fair value through profit or loss” are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired, at which the cumulative gain or loss previously recognized in equity is recognized in the income statement.

hh. Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such condition exists, the asset's recoverable amount is estimated, and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the income statement, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

ii. Restructuring and rationalization provisions

Restructuring provisions mainly comprise termination payments and are recognized in the period which the Company becomes legally or constructively committed to payment.

jj. Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared.

kk. Provisions

Provisions were raised and management determined an estimate based on the information available. An additional disclosure of these estimates of provisions is included in note 25. Provisions are made at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material. The Company has in place a bad debt provision where bad debts of over 5 years shall only be written off on the authority of the Board and shall be made only after all reasonable steps have been taken to recover the debt.

ll. Contingent Liabilities

The Entity does not provide for a contingent liability but discloses details of any contingencies in the notes to the financial statements since probability is assumed as possible and not payable unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

5. SIGNIFICANT JUDGEMENTS SOURCES OF ESTIMATION UNCERTAINITY

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumption

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the Asset based on the assessment of experts employed in the entity.
- The nature of the asset, its susceptibility and adaptability to changes in technology and process.
- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the assets.
- Changes in the market in relation to the asset.

CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2021-2022	2020-2021
6. SALES/ TURNOVER		
Spirit Sales	1,579,561,728	1,419,486,745
Carbon Dioxide Sales	4,451,323	1,016,897
Yeast Sales	99,755,628	89,187,710
	1,683,768,679	**1,509,691,352**

7. COST OF SALES	**2021-2022**	**2020-2021**
Materials, Energy and Packing	1,054,044,833	788,746,081
Direct Salaries, wages and benefits	263,403,475	266,364,713
Plant Maintenance and other Factory overheads	86,890,332	102,221,019
Excise Duty	24,552,275	4,355,148
	1,428,890,914	**1,161,686,961**

8. GAINS / (LOSS) ON DISPOSAL OF NON FINANCIAL ASSETS	**2021-2022**	**2020-2021**
Disposal of Motor Vehicles	925,300	3,963,842
	925,300	**3,963,842**

9. OTHER INCOME		
	2021-2022	**2020-2021**
Rent paid by employees	6,575,857	6,649,950
Miscellaneous Income	17,164,525	15,263,421
Other Income	735,489	1,043,189
Finance Income		
	24,475,871	**22,956,560**

10. FINANCE INCOME	**2021-2022**	**2020-2021**
Interest on fixed deposits	46,697,397	37,729,996
	46,697,397	37,729,996

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. ADMINSTRATIVE EXPENSES	2021-2022	2020-2021
Staff Costs	112,887,203	114,156,306
Advertising and Public relations	0	470,000
Audit Fees	780,000	780,000
Computer Expenses	6,331,140	8,267,695
Donations	673,450	0
Subscriptions and Newsletter	502,000	842,876
Guest House Expenses	613,438	919,291
Legal fees	3,675,394	1,146,775
Management Fees	16,666,666	33,286,191
Office equipment repairs	2,623,138	2,474,004
Motor Vehicle running Expenses	11,582,472	8,687,655
Postage, telegrams and telephone	2,231,913	1,856,544
Printing and stationery	3,054,892	1,590,412
Travelling and Accommodation	11,402,681	7,415,232
Marketing and Nairobi office expenses	13,091,249	13,592,818
Consultancy and performance contracting activities	247,685	136,600
Productivity Improvement	0	446,200
Security Hire	8,402,830	8,043,024
Insurance and Licenses	15,495,735	13,836,330
Rent	2,240,129	2,159,757
Repairs and renewals (Housing)	45,990	103,462
Recruitment expenses	287,346	0
Directors Honorarium		
Board and Committee Sitting Allowances	6,899,370	5,402,091
Write Back on Credit on Debtors balances	-	-51,080
Bank Charges	750,428	574,713
Provision for bad debts	-	0
Income Tax Expense Rental Income	2,121,893	640,700
Consultancy and professional services	750,000	0
	223,357,042	**226,777,594**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. (B). STAFF COSTS	2021-2022	2020-2021
Salary and allowances for Permanent employees	292,888,057	294,649,141
Wages for Casual staff	10,590,376	10,045,144
Employer's Contribution to the NSSF	539,200	560,600
Medical Insurance Schemes	19,707,507	20,334,887
Enmployer Contributions to Pension Scheme	9,633,350	9,406,268
Leave pay and Gratuity	13,672,620	13,901,649
Other Staff Welfare costs	29,259,569	31,623,330
	376,290,678	**380,521,019**
Direct Salaries ,wages and benefits (Note 9)	263,403,475	266,364,713
Staff Costs (Note 10)	112,887,203	114,156,306
	376,290,678	**380,521,019**

	2021-2022	2020-2021
The average number of Employees at the end of the year was:		
Permanent Employees - Management	94	96
Permanent Employees - Union staff	126	132
Temporary and Contract Employees	5	5
Total	**225**	**233**

Staff Costs are classified on the ratio of 70% for direct salaries, wages, and benefits under Note 9 and 30% for indirect salaries, wages and benefits under administrative costs Note 10.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. SELLING AND DISTRIBUTION EXPENSES	2021-2022	2020-2021
Vehicle Distribution Costs	940,266	67,175
Distribution Staff Costs	4,787,946	4,724,994
	5,728,212	4,792,169

13. FINANCE COST		
	2021-2022	2020-2021
Exchange Loss / (Gains) Operations	345,559	1,245,519
Interest on loans	306,712,978	294,966,325
	307,058,537	296,211,844

14. INCOME TAX EXPENSE / (CREDIT)		
a) Current taxation	**2021-2022**	**2020-2021**
Current Taxation based on Profit of Separate sources on income at 30%	7,172,362	11,050,261
Previous Year Taxation		
Current tax prior year under / (over provision)		
Total	**7,172,362**	**11,050,261**

Annexe. II (b)

AGRO CHEMICAL AND FOOD COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2022

NOTE (15A)SHEDULE OF PROPERTY, PLANT & MACHINERY AND EQUIPMENT

COST / VALUATION	Leasehold Land Kshs.	Building, Housing & Factory Kshs.	Plant and Machinery Kshs.	Wet Yeast Coolers	Capital Work in Progress Kshs.	Motor Vehicles Kshs.	Computers and Accessories	Furniture and Equipment Kshs.	Total Kshs.
COMPRISING									
As at 1st July 2021	56,500,000	440,815,162	2,111,202,504	4,200,000	64,689,638	65,022,295	15,068,076	10,469,340	2,767,967,015
On Revaluation	5,500,000	380,837	(117,217,505)	(1,235,000)		(24,667,278)	(9,265,076)	(6,753,240)	(153,257,262)
Revalued Cost	**62,000,000**	**441,195,999**	**1,993,984,999**	**2,965,000**	**64,689,638**	**40,355,017**	**5,803,000**	**3,716,100**	**2,614,709,753**
Additions									-
			2,403,749		106,237,959	2,674,999	1,855,731	334,667	113,507,105
Transfers									-
									-
On Disposal							(100,000)		(100,000)
As at 30th June 2022	**62,000,000**	**441,195,999**	**1,996,388,748**	**2,965,000**	**170,927,597**	**43,030,016**	**7,558,731**	**4,050,767**	**2,728,116,858**
DEPRECIATION									
As at 1st July 2021	6,547,550	54,064,801	415,528,226		-	36,438,037	9,061,901	5,219,815	526,860,330
On Revaluation	(6,547,550)	(54,064,801)	(415,528,226)		-	(36,438,037)	(9,061,901)	(5,219,815)	(526,860,330)
	-	-	-	-	-	0	.	(0)	(0)
On Disposal									-
Charge for the Period July 2021- June 2022	651,000	11,029,900	79,855,550	444,750		5,713,125	2,345,923	590,882	100,631,130
As at 30th June 2022	**651,000**	**11,029,900**	**79,855,550**	**444,750**	**-**	**5,713,125**	**2,345,923**	**590,882**	**100,631,130**
NET BOOK VALUE									
As at 30th June 2022	**61,349,000**	**430,166,099**	**1,916,533,198**	**2,520,250**	**170,927,597**	**37,316,891**	**5,212,808**	**3,459,885**	**2,627,485,728**
As at 30th June 2021	**49,952,450**	**386,750,361**	**1,695,674,278**	**4,200,000**	**64,689,638**	**28,584,258**	**6,006,175**	**5,249,525**	**2,241,106,684**

NOTE (15A)SHEDULE OF PROPERTY, PLANT & MACHINERY AND EQUIPMENT

COST / VALUATION	Leasehold Land Kshs.	Building, Housing & Factory Kshs.	Plant and Machinery Kshs.	Capital Work in Progress Kshs.	Motor Vehicles Kshs.	Computers and Accessories	Furniture and Equipment Kshs.	Total Kshs.
COMPRISING								
As at 1st July 2020	56,500,000	438,293,373	2,092,794,236	21,684,515	59,822,295	8,475,178	11,201,590	2,688,771,187
Additions				83,033,828				83,033,828
Transfers		2,521,789	22,608,268	(40,028,705)	8,230,000	6,650,898	17,750	-
On Disposal					(3,030,000)	(58,000)	(750,000)	(3,838,000)
As at 30th June 2021	56,500,000	440,815,162	2,115,402,504	64,689,638	65,022,295	15,068,076	10,469,340	2,767,967,015
DEPRECIATION								
As at 1st July 2020	5,954,300	43,044,422	330,240,126		28,974,162	5,361,854	4,437,356	418,012,220
On Disposal					(1,692,662)	(23,200)	(300,000)	(2,015,862)
Charge for the Period July 2020- June 2021	593,250	11,020,379	85,288,100		9,156,537	3,723,247	1,082,459	110,863,972
As at 30th June 2021	6,547,550	54,064,801	415,528,226	-	36,438,037	9,061,901	5,219,815	526,860,330
NET BOOK VALUE								
As at 30th June 2021	49,952,450	386,750,361	1,699,874,278	64,689,638	28,584,258	6,006,175	5,249,525	2,241,106,684
As at 30th June 2020	50,545,700	395,248,951	1,762,554,110	21,684,515	30,848,133	3,113,324	6,764,234	2,270,758,966

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. INTANGIBLE ASSETS		
COST	**2021-2022**	**2020-2021**
As at July 1, 2021	30,589,608	30,097,992
Additions	-	491,616
Disposals		
On revaluation	(14,176,607)	
As at June 30, 2022	**16,413,001**	**30,589,608**
AMORTISATION		
As at July 1, 2020	30,196,316	30,097,991
Charge for the year	4,103,250	98,325
ON REVALUATION	(30,196,316)	
Disposals		
Impairment loss		
As at June 30, 2022	**4,103,250**	**30,196,316**
NET BOOK VALUE		
As at June 30, 2022	**12,309,750**	**393,291**
17. INVENTORIES AND WORK IN PROGRESS	**2021-2022**	**2020-2021**
Raw materials and spares	164,082,647	177,013,772
Finished Goods	23,008,633	79,188,706
Work In Progress	3,703,998	4,780,337
	190,795,277	**260,982,815**
18. TRADE AND OTHER RECEIVABLES	**2021-2022**	**2020-2021**
Trade Debtors	579,008,276	647,069,635
Pre-payments	16,787,572	6,200,385
Creditors with debit Balances	82,400,571	51,327,386
Other debtors	211,518,192	188,691,431
Total	**889,714,611**	**893,288,838**
Provision for Bad and Doubtful debts	(66,188,541)	(66,188,541)
	823,526,070	**827,100,297**
18.(a) TRADE AND OTHER RECEIVABLES	**2021-2022**	**2020-2021**
Trade receivables (note 18(b))	579,008,276	647,069,635
Deposits and prepayments	16,787,572	6,200,385
Creditors with debit Balances	82,400,571	51,327,386
Staff receivables (note 18 (c))	15,556,577	19,333,783
Other receivables	195,961,614	169,357,648
Gross trade and other receivables	**889,714,611**	**893,288,838**
Other: Provision for bad and doubtful receivable	(66,188,541)	(66,188,541)
Net trade and other receivables	**823,526,070**	**827,100,297**

Provision for bad and doubtful debts relate to specific provisions made between the years 2008/2009 and write backs made composed of Kshs. 62,508,649 for trade receivables and Kshs. 3,607,892 for staff debtors who left company services.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. (b)TRADE RECEIVABLES	**2021-2022**	**2020-2021**
Gross trade receivables	579,008,276	647,069,635
Debtors with Credit Balances	(200,400,681)	(178,659,737)
	378,607,595	**468,409,898**
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	294,585,488	345,634,881
Between 30 and 60 days	18,942,161	51,592,384
Between 61 and 90 days	(24,004,002)	22,434,852
Between 91 and 120 days	14,197,548	2,148,603
Over 120 days	74,886,400	46,599,178
	378,607,595	**468,409,898**

18. (c)STAFF RECEIVABLES	**2021-2022**	**2020-2021**
Gross staff loans and advances	15,556,577	19,333,783
Provision for impairment loss		
	15,556,577	**19,333,783**
Less: Amounts due within one year	15,556,577	19,333,783
Amounts due after one year	**0**	**0**

19.SHORT TERM DEPOSITS	**2021-2022**	**2020-2021**
National Bank of Kenya	592,625,500	354,835,716
Kenya Commercial Bank	65,000,000	158,000,000
	657,625,500	**512,835,716**

The average effective interest rate on the short term deposits as at June 30,2022 was 6.5%
2021 was 8.25%

20. CASH AND BANK BALANCES	**2021-2022**	**2020-2021**
Cash at Bank	134,225,990	151,419,442
Cash in Hand	550,445	522,828
	134,776,436	**151,942,270**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. (b) Detailed analysis of cash and Cash Equivalents			
Financial Institution	**Account Number**	**2021-2022**	**2020-2021**
a) Current Account			
National Bank Current Account Kisumu	01020000782601	100,619,522	93,126,832
Barclay Current Account - Kisumu	1009560	18,527,044	43,269,624
National Bank Current Account Harambee Avenue	1020000782600	1,086,939	4,612,533
Kenya Commercial Bank School Account- Muhoroni	1104055325	7,074,293	4,385,605
Kenya Commercial Bank -Muhoroni	110-4043-084	1,733,293	1,074,917
Sub Total		**129,041,091**	**146,469,511**
b) On Call Deposits		204,232,207	121,442,423
Sub Total		**204,232,207**	**121,442,423**
c) Fixed Deposits Accounts			
National Bank of Kenya		592,625,500	354,835,716
KCB		65,000,000	158,000,000
Call deposit National bank of kenya			
Sub Total		**657,625,500**	**512,835,716**
d) Foreign Currency Account (US$)			
Nbk US Dollar Account- Harambee Avenue	0200007826500	3,658,849	3,659,262
Sub Total		**3,658,849**	**3,659,262**
e) Savings Account			
National Bank of Kenya Savings Account Kisumu	1241000782600	1,526,050	1,290,670
Sub Total		**1,526,050**	**1,290,670**
f) Others- Cash in Hand			
Petty cash - Nairobi Office		99,437	41,269
Petty Cash Muhoroni		450,118	481,054
Petty Cash School		890	505
Sub Total		**550,445**	**522,828**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. ORDINARY SHARE CAPITAL		
Authorized 3,750,000 Ordinary shares		
Of Kshs.20/=	75,000,000	75,000,000
Issued and fully paid 3,000,000,000		
Ordinary shares of Kshs.20/=	60,000,000	60,000,000

22. REVALUATION /CAPITAL RESERVES

Revaluation reserve relate to the revaluation of property plant and equipment. As indicated in the statement of changes in equity, this is stated after the transfer of excess depreciation net of related tax to the retained earnings. Revaluation reserve in not distributable.

23. RETAINED EARNINGS/ACCUMULATED DEFICIT

Retained earnings represent amounts available for distribution to the Company's shareholders. Undistributed retained earnings are utilized to finance the Company's business activities

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. TRADE AND OTHER PAYABLES	**2021-2022**	**2020-2021**
Trade Payables	78,499,466	59,125,216
Debtors with credit Balances	200,400,681	178,659,737
Other Payables	370,099,105	327,590,137
	648,999,252	565,375,091

25. PROVISION	**2021-2022**	**2020-2021**
Balance as at the beginning for staff Leave	20,372,903	19,405,082
Balance as at the beginning for Service Gratuity	5,839,582	4,679,145
Provision for staff Leave at the beginning of the year	16,232,307	20,372,903
Provision for Service Gratuity at the beginning of the yea	2,833,431	2,257,216
Staff Leave paid during the year	(20,372,903)	(19,405,082)
Service Gratuity paid during the year	(2,177,609)	(1,096,779)
	22,727,711	26,212,485

26. BORROWINGS	**Interest Rate**	**2021-2022**	**2020-2021**
Paris Club Rescheduled loan	7%	2,941,884,000	2,941,884,000
Accrued nterest on Paris Club Loan		6,369,178,806	6,163,246,950
Interest on GOK paid Loan	12.20% : 2020/21 12.08%	926,855,805	826,074,683
		10,237,918,611	9,931,205,632

26. (B) BORROWINGS MOVEMENT	**2021-2022**	**2020-2021**
Balance at beginning of the year	9,931,205,633	9,636,239,308
Interest For the period	306,712,978	294,966,325
Repayment of Loan	0	0
Balance at the end of the year	10,237,918,611	9,931,205,633
Less : Amounts due within one year (Current year portion	10,237,918,611	9,931,205,633
Amounts due after one year (Non-Current year portion)	0	0

27. TAX PAYABLE	**2021-2022**	**2020-2021**
Tax Brought Forward	15,525,770	15,435,575
Income tax charge	7,172,362	11,050,261
Tax Paid	(10,415,619)	(10,960,066)
	12,282,513	15,525,770

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Company has an outstanding loan of Kshs. 10,237,918,611 with the Government of Kenya comprising of the principal Paris club loan of Kshs. 2,941,884.000 and interest thereon of Kshs. 6,369,178,806 charged at 7%.

The second loan is the GOK paid loan where the Company has already paid the principal. The balance of Kshs. 926,855,695 is the interest charged on the balance interest at the average ruling lending rate during the year. The interest rate for the current year is 12.22% (2020/2021 12.08%)

The loans have been classified as current liabilities because they are due, and the Government of Kenya can recall the loan within the 12 months of trading.

The Company "does not have a conditional right to defer settlement of the liability for at least twelve months". Further to this for an entity to classify a liability as non-current, the period of the repayment of the liability should be specific and backed by a legal document say a contract of borrowing which in this case is lacking.

28.CAPITAL COMMITMENTS	**2021-2022**	**2020-2021**
Authorized and Contracted	56,213,000	40,000,000
Authorized but not Contracted	9,832,000	15,951,000
TOTAL	66,045,000	55,951,000

Capital Commitments relate to Capital projects that were budgeted for and authorized to be spent during the year. Projects authorized and contracted were awarded while those authorized but not contracted were not executed and have no liability arising.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. CONTINGENT LIABILITIES

i) Bank Guarantees	**2021-2022**	**2020-2021**
a) Kenya Airways	500,000	500,000
b) KEMSA	280,000	NIL
c) Customs Bond	144,000,000	144,000,000
	144,780,000	**144,500,000**
ii) Letters of credit	**KSHS**	**KSHS**
a) LC 099200840 US$ 742,500		79,818,750
b) LC 0099200846 US$ 166,156.50	20,769,563	
Sub Total	**20,769,563**	**79,818,750**
Total Guarantees	**165,549,563**	**224,318,750**
	2021-2022	**2020-2021**
a) Kenya Revenue Authority- Tax demand	634,644,435	634,644,435
	634,644,435	**634,644,435**

The Company has bank guarantees and letters of credit with National Bank of Kenya on account of suppliers who do not offer credit facilities to the Company for their services. The directors are of the opinion no liability will arise in relation to the guarantees and letters of credit.

30. RELATED PARTY TRANSACTIONS
a) Government of Kenya

a) The Government of Kenya owns 56% of the Company shareholding through its shareholders ADC 28% and ICDC 28%. The Company also has an outstanding loan of Kshs.10,232,918,611 with the government of Kenya.

b) The Mehta International Limited
The Mehta International Limited owns 44% of shareholding in ACFC and such a related party.
The company provides management services to the company in line with the Management Contract in place between The Government of Kenya and The Mehta International Limited up to 6th January 2022. The transaction with this party during the year relates to payment of management fees.

c) Other related parties Other related parties include
i) Key Management
ii) Board of Directors

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. RELATED PARTY TRANSACTIONS		
Transactions with related parties	**2021-2022**	**2020-2021**
i) Government of Kenya	Kshs	Kshs
Government of Kenya Loan	10,237,918,611	9,931,205,632
	2021-2022	2020-2021
ii) The Mehta Group Limited	Kshs	Kshs
Management Fees	16,666,666	33,286,191
	2021-2022	**2020-2021**
Key Management remuneration	Kshs	Kshs
Directors	6,899,370	5,402,091
Resident Director and Chief executive	1,459,065	513,110
Key Management remuneration	22,378,920	34,407,828
	30,737,355	**40,323,029**
Due from related parties		
Due from Government of Kenya	NIL	NIL
Due from The Mehta Group	NIL	NIL
	NIL	NIL
Total Due	NIL	NIL
	2021-2022	**2020-2021**
Due to related parties	Kshs	Kshs
Due to Government of Kenya	10,237,918,611	9,931,205,632
Due to The Mehta Group	NIL	NIL
Due to senior management staff	NIL	NIL
Total Due	10,237,918,611	9,931,205,632

The Compensation for the Resident Director and Chief executive up to 6th January 2022 relates to compensation paid for his local travel when executing official duties. The salary for the chief executive is paid by the management agent under the management Contract hence not recognized in the financial statements

31. FINANCIAL RISK MANAGEMENT POLICIES

The company activities expose it to a variety of financial risks. These involve the analysis, evaluation, acceptance, and management of some degree of risk or combination of risks.

Taking risks is core to the business and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance. The Company's risk management policies are designed to identify analyze these risks, set appropriate risk limits and controls, and to monitor the risks and at the same time ensuring adherence to laid down limits. This is achieved by means of a reliable up-to-date information system.

The company's Board Audit and risk committee oversees how the management monitors compliance with the risk management policies and procedures. Risk management is carried out by the management under the supervision of the Board of Directors. The Company has an internal audit department. The internal audit undertakes both regular and ad hoc reviews of risks management controls and procedures, the results of which are reported to the Audit committee.

The company has exposure of the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk
- Operational risk

a. Credit risk

Due to the nature of the Company's operation it is exposed to credit risk which is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to pay amounts in full when due for goods sold to customers and investments is short terms deposits. The company is exposed to this risk in several areas including trade and other receivables, and cash and cash equivalents. However, the Company credit risk is concentrated on trade receivables in terms of sale of yeast to some customers on credit and who are to pay after a period defined by the management.

The management assess the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows.

Credit Risk				
	Fully Performing	Past due	Impaired	Total
As at June 30, 2022	Kshs	Kshs	Kshs	Kshs
Cash and cash equivalents	791,851,490	74,886,400		866,737,891
Trade receivables	378,607,595			378,607,595
Total	**1,170,459,086**	**74,886,400**	0	**1,245,345,486**
As at June 30, 2021				
Cash and cash equivalents	664,255,159	46,599,178		710,854,337
Trade receivables	468,409,898			468,409,898
Total	**1,132,665,057**	**46,599,178**	0	**1,179,264,235**

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Company has significant concentration of credit risk on amounts due from 60 days.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.
The bank balances are fully performing.

b. Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium, and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Liquidity Risk				
As at 30th June 2022	**Less than 1 Month**	**Between 1 to 3 months**	**Over 3 months**	**Total**
	Kshs	Kshs	Kshs	Kshs
Trade Payables	648,999,300			648,999,300
Current portion of borrowings	10,237,918,611			10,237,918,611
Provisions	22,727,711			22,727,711
Tax Payable	7,172,362			7,172,362
Total	**10,916,817,983**	0	0	**10,916,817,983**
As at 30th June 2021				
Trade Payables	565,375,090			565,375,090
Current portion of borrowings	9,931,205,632			9,931,205,632
Provisions	26,212,485			26,212,485
Tax Payable	11,050,261			11,050,261
				0
	10,533,843,469	**0**	**0**	**10,533,843,469**

c) Market Risk

i) Foreign currency Risk

The Company has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

Foreign Currency Risk			
	Kshs	**Other currencies**	**Total**
	Kshs	**Kshs**	**Kshs**
As at 30th June 2022			
Financial assets (investments, cash , debtors)	3,658,849		3,658,849
Liabilities			
Trade and other payables			
Borrowings			
Net foreign currency asset / (liability)	**3,658,849**	**0**	**3,658,849**
	Kshs	**Other currencies**	**Total**
	Kshs	**Kshs**	**Kshs**
As at 30th June 2021			
Financial assets (investments, cash , debtors)	3,659,262		3,659,262
Liabilities			
Trade and other payables			
Borrowings			
Net foreign currency asset / (liability)	**3,659,262**	**0**	**3,659,262**

The entity manages foreign exchange risk form future commercial transactions and recognized assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

ii) Foreign Currency Sensitivity analysis

Foreign Currency sensitivity			
2022	**Change of Currency rate**	**Effect on profit before tax**	**Effect on equity**
	Kshs	Kshs	Kshs
US Dollar	10%	214,624.45	
2020			
US Dollar	10%	0.00	

As at 30th June 2022 an increase /decrease of 10 percentage points would have resulted in an increase/decrease in pre-tax profits of kshs. 517,914 (2020/2021 Kshs. 214,620). This risk is attributed to the Bank deposits of US$. 32,033.50 held in foreign currency.

iii) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavored to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The Company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

d) Operational Risk

Operational risk is the risk of indirect loss arising from a wide variety of causes associated with the Company's process, personnel, technology, infrastructure, external factors other than credit, and market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Company's objective is to manage operational risk to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and avoid any control procedures that restrict initiative and creativity in the company.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management in the company's departments.

The responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization and approval of transactions.
- Requirements for the reconciliation of records.
- Compliance with regulatory and legal requirements.
- Documentation of control procedures.
- Requirements for periodic assessment of operational risks faced by the entity, and the adequacy of controls and procedures to address the risks identified.
- Development of contingency plans.
- Training and professional development of staff.
- Adherence to ethical and business standards.

Review of compliance with company standards is done on a continuous basis by senior management and internal audit department

e) Capital Risk Management

The company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the company consists of debt which includes borrowings disclosed in Note 26 as well as retained earnings and issued capital as presented on note 21. Consistent with others in the industry, the company monitors capital on basis of the gearing ratio. This ratio is calculated as net debt ratio divided by the equity while Net debt is calculated as total borrowings less cash and cash equivalent.

Capital Risk Management		
	2021-2022	**2020-2021**
	Kshs	**Kshs**
Revaluation/ Capital reserve	2,389,788,369	2,000,165,592
Retained earnings	(8,925,197,695)	(8,604,123,495)
Total Funds	**(6,535,409,325)**	**(6,603,957,903)**
Total borrowings	10,237,918,611	9,931,205,632
Less cash and bank balances	792,401,936	664,777,987
Net debt / (excess cash and cash equivalents	**9,445,516,675**	**9,266,427,646**
Gearing	**-69%**	**-71%**

32. INCORPORATION

The Company is incorporated in Kenya under the Kenyan Companies Act and domiciled in Kenya.

33. EVENTS AFTER THE REPORTING PERIOD

There were no significant material adjusting and non-adjusting events after the reporting period.

34. CURRENCY

The financial statements are presented in Kenya Shillings (Kshs.)