CHEMELIL SUGAR COMPANY LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2008

P.O. Box 177
Muhoroni

REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2008

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COMPANY INFORMATION

DIRECTORS	: Dr. S.K Mining	Chairman, (Appointed on 8 September 2008)
	: Eng. E.A. Musebe	Managing Director, (Appointed on 12 September 2008)
	: Prof. J.O Nyabundi	Managing Director,(Retired on 18 June 2008)
	: Permanent Secretary, Ministry of Agriculture	Alternate,Mrs.Anne Onyango
	: Permanent Secretary, Treasury	Alternate, Mr. P.C Sigei
	: Development Bank of Kenya	
	: Agricultural Development Corporation	
	: Kenya Shell Limited	
	: Mr. Robert Iltaramatwa Kochale	
	: Mr. Eliud Kirwa Koech	Appointed on 09 October 2007
	: Mr. Erastus W.Boaz	Appointed on 06 December 2007
	: Mrs. Sarah V. Injairu	
REGISTERED OFFICE	: Chemelil Sugar Company Limited : Awasi-Nandi Hills Road : P.O. Box 177 - 40107 : MUHORONI	
INDEPENDENT AUDITORS	: PKF Kenya : Certified Public Accountants : P.O. Box 187- 40100 : KISUMU	
	On Behalf of: : P.N Komora : Controller and Auditor-General : Kencom House : P.O. Box 30084 - 00100 : NAIROBI	
COMPANY SECRETARY	: Peter Kemei : Image Registrars : P.O. Box 72133 - 00100 : NAIROBI	
PRINCIPAL BANKERS	: Kenya Commercial Bank Limited : P.O. Box 17 - 40100 : KISUMU	
	: Co-operative Bank of Kenya Limited : P.O. Box 1511 - 40100 : KISUMU	
LEGAL ADVISORS	: Migos Ogamba & Company : P.O. Box 3842 - 40020 : KISII	
	: Otieno Ragot & Company : P.O. Box 3051 - 40100 : KISUMU	

CHEMELIL SUGAR COMPANY LTD
REPORT OF THE CHAIRMAN
FOR THE YEAR ENDED 30 JUNE 2008

It is my pleasure once again to report on the performance of Chemelil Sugar Company Limited for the year ended 30 June 2008 as follows:

Overview

In the financial year under review, the Company's operating environment was very challenging. Some of the main challenges included the post-election violence, increase in Outgrowers' cane purchase price, increase in the cost of steel-based spares and petroleum products. Despite all these challenges, the Company registered mixed results of an improvement in sugar production against an overall operating loss.

Operations

A total of 679,158 tonnes (2007 – 676,914 tonnes) of cane was ground in the year. The Nucleus Estate supplied 89,605 tonnes (2007 - 62,460 tonnes) of cane, representing 13% of the total supply while the farmers supplied 589,554 tonnes (87%) of cane worth Kshs 1.434 billion.

All the cane supplied was ground at an average Tonnes of Cane/ Tonnes of Sugar (TC/TS) ratio of 12.09 to produce 56,165 tonnes (2007 – 54,051 tonnes), representing an increase of 4% above that of the previous year. The Company retained the Kenya Bureau of Standards (KEBS) Diamond Mark of Quality in both mill white and brown sugar by sustaining the high quality of sugar produced.

The sugar market remained depressed for the last six months of the year. This was mainly due to the flooding of the market with illegally imported sugar that was being sold at lower prices. The situation forced the Company to sell its sugar at very low prices even as the stocks continued to pile.

The Company experienced cane fires and lost production time during the post-election violence between December 2007 and March 2008. This led to cane drying in the fields and causing a loss in sugar production and cane stocks.

During the year the Company received a Roads Maintenance Equipment Grant of Kshs. 113.2 million from Kenya Sugar Board. The grant was utilised to acquire Roads Maintenance fleet for maintenance of the Chemelil cane catchment zone roads network to improve access to cane fields and reduce the cost of cane haulage.

Financial Results

The financial results were adverse in the year. The Company made a pre-tax loss of Kshs. 202.5 million which was a 269% decline in profit compared to that of the previous year's profit of Kshs. 120 million. The significant decrease in profit was mainly attributed to increase in operating costs especially the purchase price of Outgrowers' cane from (Kshs.2,200 to Kshs. 2,500 per tonne) resulting in a Kshs.136.2 million increase in cost of cane, depressed sugar prices, the effects of post-election violence and increase in price of steel-based spares and petroleum products.

The Company's cash flow situation in the financial year was strained further by the increased operating costs as earlier mentioned. Although the cash flow situation was tight, the Company still paid for cane deliveries, invested Kshs.171 million on capital assets and paid Kenya Sugar Board Kshs.12.8 million in SDF loans repayment.

Contribution to Government Revenue

The Company's payment to the exchequer in form of taxes and levies amounted to over Kshs. 500 million.

Future Prospects

The Company is implementing its 5- year Strategic Plan (2007/08 – 2011/2012) whose major objective is to increase sugar production to 141,000 tonnes from 1.4 million tonnes of cane per year by the end of the 5- years period, when the factory is expected to crush at the rate of 200 tonnes of cane per hour (TCH) from the current capacity of 135 TCH with an improved efficiency. The process of reviewing the plan to align it with Vision 2030 Objectives is underway. In addition to increased production, the strategic objectives lay emphasis on improved operational efficiency, improved financial management, cost reduction and diversification into co-products. Already the Company is in discussions with a strategic partner to put up a commercial power generation plant.

The COMESA safeguard measures were extended to 2012. However, extension was subject to a phased increase in quantity of imported duty free sugar and decrease in the customs duty eventually culminating into the removal of all import restrictions. This will expose the Company to serious competition from cheaper imports. To compete effectively, the Company will continue with its factory expansion program, increase the branded sugar production and operationalise its commercial co-generation of power. Cost reduction initiatives will be implemented to return the company to profitability. More land in the catchment area will be put under cane to meet the factory expansion requirements. The cane development programme will continue into the next year and a further 6,900 hectares is targeted.

Privatization

As stated previously, the Company's privatization exercise is still on course and the way forward is awaited from the Government.

Appreciation

On behalf of the Board of Directors, I wish to express my gratitude to all our cane farmers who have stood with us during these difficult times and have now redoubled their efforts in cane farming. I also wish to thank our materials suppliers, the Kenya Sugar Board for the Roads Maintenance Grant given to us, cane transporters, cane development contractors and the sugar customers for their valued support in the last one year. Finally, I would also like to take this opportunity to sincerely thank the management and staff for their hard work and continued commitment. As we move into the fifth cycle of the performance contracting process, the Board is optimistic that we shall all improve our performance for a better future for the Company.

Dr. S K MINING
CHAIRMAN

EPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 30 June 2008 which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activity of the company is that of manufacture of sugar.

RESULTS

	2008 Shs	2007 Shs
(Loss)/Profit before tax	(202,545,556)	119,936,756
Tax	196,591,659	(33,976,250)
Net (loss)/profit for the year	(5,953,897)	85,960,506

DIVIDENDS

The directors do not recommend the declaration of a dividend for the year. (2007: Shs. 5,289,791).

DIRECTORS

The names of directors who held office during the year and at the date of this report are shown on page 1. In Accordance with the Company's Articles of Association, no director is due for retirement by rotation.

AUDITORS

The Controller and Auditor-General is responsible for the statutory audit of the company's books of account in accordance with part III of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Controller and Auditor-General to appoint other auditors to carry out the audit on her behalf.

Accordingly, PKF Kenya were appointed to carry out the audit on behalf of the Controller and Auditor-General for the year ended 30 June 2008

BY ORDER OF THE BOARD

DR. S.K MINING
COMPANY CHAIRMAN

.........................23-12-2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act (Cap.486) requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure that the company maintains 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 accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates consistent with previous years, and in conformity with the International Financial Reporting Standards and the requirements of the Companies Act (Cap.486). The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 30 June 2008 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on 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.

Approved by the board of directors on 23-12-2008 and signed on its behalf by:

CHAIRMAN **MANAGING DIRECTOR**

REPUBLIC OF KENYA

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KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2008

The financial statements of Chemelil Sugar Company Limited set out on pages 8 to 30 which comprise the balance sheet as at 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes have been audited on my behalf by PKF Kenya, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Directors' Responsibility for the Financial Statements

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

Responsibility of the Controller and Auditor General

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

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

Opinion

In my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the financial position of the Company as at 30 June 2008 and of its loss and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with Kenya Companies Act, Cap 486 of the Laws of Kenya.

Emphasis of Matter

Without qualifying my opinion, I draw attention to note 1 to these financial statements which indicate that as at 30 June 2008 the Company's current liabilities exceeded current assets by Kshs.131,027,922 (2007-Kshs.208,055,996). The directors are, however, of the opinion that this is a temporary phenomenon that will not impair the operations of the company both in the short-term and in the medium-term. The financial statements have therefore been prepared on a going concern basis on the assumption of continued financial support from related parties.

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

Nairobi

14 January 2009

INCOME STATEMENT

	Notes	2008 Shs	2007 Shs
		For the year ended 30 June	
Revenue	2	2,450,259,837	2,421,913,257
Cost of sales	6	(2,209,596,230)	(2,031,613,998)
Gross profit		240,663,607	390,299,259
Fair value (loss)/gain in biological assets	10	(1,958,692)	23,779,264
Other operating income	3	62,353,382	11,045,917
Administrative expenses	11	(291,193,111)	(288,442,337)
Other charges and expenses	7	(201,566,377)	(38,305,165)
Operating (loss)/profit		(191,701,191)	98,376,938
Finance (costs)/ income	8	(10,844,365)	21,559,818
(Loss)/profit before tax for the year		(202,545,556)	119,936,756
Tax	12	196,591,659	(33,976,250)
Net (loss)/profit		(5,953,897)	85,960,506
Proposed final dividend for the year	13	-	5,289,791
Earnings per share	14	(0.56)	8.13

The accounting policies on pages 12 to 17 and the notes on pages 18 to 30 form an integral part of the financial statements.

Report of the Controller and Auditor-General - pages 6 - 7

BALANCE SHEET

		As at 30 June	
	Notes	**2008 Shs**	**2007 Shs**
CAPITAL EMPLOYED			
Share capital	15	211,591,620	211,591,620
Revaluation reserve	16	1,137,529,888	747,939,624
Retained earnings		286,857,784	241,458,513
Proposed dividend		-	5,289,791
Shareholders' funds		1,635,979,293	1,206,279,548
Non-current liabilities			
Borrowings	17	514,682,706	237,061,485
Deferred tax	18	590,502,956	299,581,805
Government grant	29	81,227,368	-
		1,186,413,030	536,643,290
		2,822,392,322	1,742,922,838
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	19	2,819,311,227	1,825,612,360
Biological assets	20	87,571,525	108,169,476
Loan to outgrowers	21	46,537,492	17,196,998
		2,953,420,244	1,950,978,834
Current assets			
Inventories	23	522,934,112	368,402,909
Biological assets	20	126,574,070	107,934,811
Loan to outgrowers	21	145,462,395	273,206,311
Trade and other receivables	22	109,910,322	108,749,546
Tax recoverable		14,806,176	14,650,810
Cash and cash equivalents	24	26,205,716	57,328,043
		945,892,791	930,272,430
Current liabilities			
Trade and other payables	25	896,558,870	715,470,059
Borrowings	17	158,736,830	413,656,546
Dividends payable	13	9,699,787	4,409,996
Directors' current account	9	562,910	4,791,825
Government grant	29	11,362,316	-
		1,076,920,713	1,138,328,426
Net current (liabilities)		(131,027,922)	(208,055,996)
		2,822,392,322	1,742,922,838

The financial statements on pages 8 to 30 were approved for issue by the Board of Directors on

23-12- 2008 and were signed on its behalf by:

_______________ CHAIRMAN _______________ MANAGING DIRECTOR

The accounting policies on pages 12 to 17 and the notes on pages 18 to 30 form an integral part of the financial statements.

Report of the Controller and Auditor-General - pages 6 - 7

ATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2007	Notes	Share capital Shs	Revaluation reserve Shs	Retained earnings Shs	Proposed dividends Shs	Total Shs
At start of year	15	211,591,620	795,761,870	112,965,552	-	1,120,319,0
Transfer of excess depreciation	16	-	(47,822,246)	47,822,246	-	-
Net profit			-	85,960,506		85,960,5
Dividends						
- Final for 2007 (proposed)	13			(5,289,791)	5,289,791	-
At end of year		211,591,620	747,939,624	241,458,513	5,289,791	1,206,279,5

Year ended 30 June 2008	Notes	Share capital Shs	Revaluation reserve Shs	Retained earnings Shs	Proposed dividends Shs	Total Shs
At start of the year	15	211,591,620	747,939,624	241,458,513	5,289,791	1,206,279,5
Increase of revaluation surplus	16	-	928,456,242	-	-	928,456,2
Deferred tax on revaluation surplus		-	(502,918,760)	-	-	(502,918,7
Transfer of excess depreciation	16	-	(51,353,168)	51,353,168	-	-
Deferred tax on excess depreciation		-	15,405,950	-	-	15,405,9
Net loss		-	-	(5,953,897)	-	(5,953,8
Dividends						
- Final for 2007 (Transferred to dividends payable)	13		-	-	(5,289,791)	(5,289,7
At end of year		211,591,620	1,137,529,888	286,857,784	-	1,635,979,2

The accounting policies on pages 12 to 17 and the notes on pages 18 to 30 form an integral part of the financial statements.

Report of the Controller and Auditor-General - pages 6 - 7

CASH FLOW STATEMENT

	Notes	2008 Shs	2007 Shs
Operating activities			
Cash generated from/(used in) operations	26	36,886,247	(36,963,031)
Interest paid		(9,020,860)	(13,975,056)
Interest received		17,218,021	48,808,325
Tax paid		(155,366)	(361,936)
Net cash generated from/(used in) operating activities		44,928,042	(2,491,698)
Investing activities			
Purchase of property, plant and equipment	19	(189,281,432)	(60,707,199)
Adjustments to property, plant and equipment		-	6,500,000
Net cash (used in) investing activities		(189,281,432)	(54,207,199)
Financing activities			
Proceeds from KSB borrowings	17	-	126,000,000
Repayment of KSB borrowings	17	(12,886,072)	(62,964,061)
Directors Account	9	(4,228,915)	2,409,996
Proceeds of Government grant	29	113,200,000	
Net cash generated from financing activities		96,085,013	65,445,935
(Decrease)/Increase in cash and cash equivalents		(48,268,378)	8,747,038
Movement in cash and cash equivalents			
At start of year	24	(30,584,840)	(39,331,878)
(Decrease)/Increase in cash and cash equivalents		(48,268,378)	8,747,038
At end of year	24	(78,853,218)	(30,584,840)

The accounting policies on pages 12 to 17 and the notes on pages 18 to 30 form an integral part of the financial statements.

Report of the Controller and Auditor-General - pages 6 - 7

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) **Basis of preparation**

The financial statements are prepared in accordance with International Financial Reporting Standards.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in accounting policy (b) below.

b) **Critical accounting estimates and judgements**

Estimates and judgements 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.

(i) **Critical accounting estimates and assumptions**

In the process of applying the company's accounting policies, the company's management makes certain estimates and assumptions about future events. In practice, the estimated and assumed results would differ from the actual results. Such estimates and assumptions, 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:

- **Inventories** - The company values its Work in Progress based on the raw material cost.If the cost of raw material differs by Shs 1,as at the balance sheet,the inventory valuation would increase/decrease by Shs 4,689.

- **Biological assets** - In arriving at the fair valuation of biological assets, the management estimate the success rate of planting at 70 tonnes of cane per hectare. Based on the managements past experience the success rate should not fall below 64 tonnes of cane per hectare Should the success rate fall by 10% from the estimate assumed by the management, the fair valuation of biological assets would decrease by Shs 21,371,000.

(ii) **Critical accounting judgements**

In the process of applying the company's accounting policies, the company's management makes certain judgements, that are continuously assessed based on prior experience and other determinants, including expectations of future events, that, under the circumstances are deemed to be reasonable, as described below:

- whether property, plant and equipment and trade receivables are impaired.

- whether inventories have become obsolete.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) **Revenue recognition**

Revenue represents the value of sugar and molasses supplied by the Company net of the Sugar Development Fund Levy and Value Added Tax.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

i) Sales are recognised upon delivery of products and customer acceptance, net of Sugar Development Levy, VAT and discount.
ii) Interest is accounted for in the period in which it is earned.
iii) Rental income is accounted for in the period in which it is earned.

d) **Property, plant and equipment**

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Freehold land, buildings and plant and machinery are subsequently shown at market value, based on periodic, but at least triennial valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Freehold land and work-in-progress are not depreciated.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) **Property, plant and equipment (continued)**

Depreciation on the remaining property, plant and equipment is calculated on straight line balance basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate %
I) Freehold land and buildings	
Buildings	2.50%
Roads	12.25%
II) Plant equipment and machinery	
Factory plant and machinery	5.00%
Irrigation project	6.67%
Agricultural implements	10.00%
Wheeled tractors and cane loaders	12.25%
Crawling tractors	10.00%
Trailers and caterpillar implements	8.33%
III) Motor vehicle and other equipment	
Lorries and Landrovers	16.67%
Other Vehicles	20.00%
Office machines, fittings and equipment	20.00%
Household equipment	20.00%
Office furniture	10.00%
Computer Hardware	25.00%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

e) **Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) **Financial liabilities**

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Borrowings are classified as financial liabilities.

g) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

h) **Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost cost using the effective interest rate method, less impairment.

Impairment of trade receivables is recognised in the income statement under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due per the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the trade receivable is impaired. The provision is based on the difference between the carrying amount and the present fair value of the expected cash flows, discounted at the effective interest rate.

Receivables not collectible are written off against the impairment. Subsequent recoveries of amounts previously written off are credited to the income statement under administrative expenses in the year of their recovery.

i) **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and financial assets with maturities of less than 3 months, net of bank overdrafts and money market lines.
In the balance sheet, bank overdrafts are included within borrowings in current liabilities.

j) **Trade payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

k) **Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the income statement under finance costs.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) **Borrowings (continued)**

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

l) **Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

m) **Share capital**

Ordinary shares are classified as equity.

n) **Dividends**

Dividends are recognised as a liability in the period in which they are declared. Proposed dividend are disclosed as a separate component of equity until declared.

o) **Taxation**

Current tax
Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

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

p) **Provisions**

Provisions for railway siding fees, restructuring costs and legal claims are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions for future operating losses are not recognised.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are measured at the present value of expenditures expected to be incurred to settle the obligation using a pre-tax rate that reflects the current market assessments of time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense in the income statement under finance costs.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) **Employee entitlements**

Employee entitlements to gratuity and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

r) **Retirement benefit obligations**

The company operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The company's contributions to the defined contribution retirement benefit scheme are charged to the income statement account in the year to which they relate.

The company and its employees contribute to the National Social Security Fund (NSSF) a statutory defined contribution scheme registered under NSSF Act. The company's contributions to the defined contribution scheme are charged to the income statement in the year to which they relate.

s) **Biological assets**

Biological assets are measured at their fair value less estimated point-of-sale costs. The fair value is determined based on market prices in the local area.

t) **Government grants**

Government grants related to assets, including-non monetary grants at fair value are presented in the balance sheet by setting up the grant as deffered income.

The government grant is recognised as income on a systematic and rational basis over useful life of the asset.

u) **Comparatives**

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

EXPLANATORY NOTES

1 Basis of preparation of financial statements

At the balance sheet date current liabilities exceeded current assets by Shs.131,027,922 (2007: Shs. 208,055,996). The company meets its day to day working capital requirements through borrowing from its bankers and Kenya Sugar Board.

The directors have prepared projected cash flows covering the periods after the balance sheet date. On the basis of this cash flow information and other financial information, the directors consider it appropriate to prepare the financial statements on a going concern basis which assumes that the company will be in operational existence for the foreseeable future.

2 Revenue

	2008 Shs	Restated 2007 Shs
Sale of milled local sugar	2,074,109,780	2,382,998,657
Sale of export sugar	315,287,346	-
Sale of molasses	60,862,711	38,914,600
Net sales	2,450,259,837	2,421,913,257

3 Other operating income

Miscellaneous income	28,723,022	7,369,384
Physical inventory adjustment	2,889,936	3,676,533
Government grant	20,610,316	-
Rental income	10,130,108	-
	62,353,382	11,045,917

4 Operating profit/(loss)

The following items have been charged in arriving at operating profit/(loss):

Depreciation on property, plant and equipment (Note 19)	124,038,809	131,858,737
Directors emoluments		
Fees	6,611,641	15,101,279
Others	7,116,446	8,936,594
Auditors' remuneration	1,200,000	1,200,000
Interest payable	27,462,386	27,248,507
Staff costs (Note 5)	470,419,735	415,860,837

5 Staff costs

Salaries and wages	447,686,700	397,057,336
Leave pay/allowances	5,222,023	4,175,191
Pension fund contribution-Defined contribution scheme	9,304,096	12,088,702
-National Social Security Fund	8,206,916	2,539,608
	470,419,735	415,860,837

6 Cost of sales

Cost of cane	1,657,819,249	1,449,157,081
Factory costs	649,542,643	590,828,933
(Increase)/decrease in closing inventory of sugar	(97,765,662)	(8,372,015)
	2,209,596,230	2,031,613,998

EXPLANATORY NOTES (CONTINUED)

	2008 Shs	2007 Shs
7 Other charges and expenses		
Provision for bad and doubtful debts		
- Loans to outgrowers (Societies)	94,293,533	32,958,988
- Other receivables	17,542,939	-
Provision for obsolete and slow moving inventories	-	1,008,445
Amortisation of accelarated pension contribution	29,681,454	4,337,732
Provision for VAT on Sugar export	45,500,725	-
Sugar stock variance	11,956,012	-
Provision for penalties on PAYE	2,591,714	-
	201,566,377	38,305,165

8 Finance costs/Income

	2008 Shs	2007 Shs
Bank overdraft interest	6,127,346	6,340,110
Interest income	(17,218,021)	(48,808,325)
Loan interest	21,335,040	20,908,397
Mobilization charges	600,000	-
Net Interest (Income)	10,844,365	(21,559,818)

9 Related party transactions and balances

i) **Amounts due to directors**

	2008 Shs	2007 Shs
At start of year	4,791,825	2,381,829
Directors fees	864,674	2,409,996
Accrual written back	(5,093,589)	-
At end of year	562,910	4,791,825

The amounts due to directors are interest free and have no specific dates of repayments.

10 Aggregate (loss)/ gain arising from changes in fair value on biological assets (Note 20d)

	2008 Shs	2007 Shs
Sugar plantation	(1,998,692)	23,786,764
Livestock	40,000	(7,500)
	(1,958,692)	23,779,264

11 Administrative expenses

	2008 Shs	2007 Shs
Finance and administration department	112,340,820	115,255,793
Human resource department	178,852,291	173,186,544
Total administrative expenses	291,193,111	288,442,337

XPLANATORY NOTES (CONTINUED)

12 Tax

	2008 Shs	2007 Shs
Current tax	-	-
Deferred tax charge (Note 18)	(196,591,659)	33,976,250
	(196,591,659)	33,976,250

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:

	2008 Shs	2007 Shs
Profit before tax	(202,545,556)	119,936,756
Tax calculated at a tax rate of 30%	(60,763,667)	35,981,027
Tax effect of:		
Expenses not deductible for tax purposes	261,482	288,486
Tax losses brought forward	-	-
Tax losses carried forward	-	-
(Over)provision of deferrred tax in previous years	(136,089,474)	(2,293,263)
Tax charge	(196,591,659)	33,976,250

13 Dividends

The directors do not recommend the payment of a dividend (2007: Shs. 5,289,791).

During the year, no interim dividend was declared (2007: Shs. nil).

The total dividend for the year is therefore Shs nil per share (2006: Shs 0.7 per share) amounting to a total of Shs n (2007: Shs 5,289,791).

In accordance with the Kenyan Companies Act, these financial statements reflect this dividend payable which is accounted for in the shareholders' funds as an appropriation of retained profits in the year ended 30 June 2008.

Payment of dividend is subject to a withholding tax at the rate of 5% for residents and 10% for non - residents.

14 (Loss)/Earnings per share

Earnings per share is calculated by dividing the net (loss)/profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2008	2007
Net (loss)/profit attributable to shareholders	(5,953,897)	85,960,506
Weighted average number of shares	10,579,581	10,579,581
Earnings per share	(0.56)	8.13

15 Share capital

Authorised, issued and fully paid

	2008	2007
10,579,581 (2006: 10,579,581) ordinary shares of Shs. 20 each	211,591,620	211,591,620

	2008 Shs	2007 Shs
16 Revaluation reserve		
Property, plant and equipment		
- land and buildings	778,469,257	449,162,975
- plant equipment and machinery	283,677,917	298,776,649
- motor vehicles and other equipment	75,382,715	-
	1,137,529,888	747,939,624

The movements in reserves were as follows:

Land and buildings

	2008 Shs	2007 Shs
At start of year	449,162,975	456,015,591
Increase of revaluation surplus	679,988,215	-
Deferred tax on revaluation surplus	(338,745,357)	-
Transfer of excess depreciation	(17,052,251)	(6,852,616)
Deferred tax on excess depreciation (Note 18)	5,115,675	
At end of year	778,469,257	449,162,975

Plant equipment and machinery

	2008 Shs	2007 Shs
At start of year	298,776,649	339,746,279
Increase of revaluation surplus	136,253,959	-
Deferred tax on revaluation surplus	(130,509,182)	-
Transfer of excess depreciation	(29,776,441)	(40,969,630)
Deferred tax on excess depreciation (Note 18)	8,932,932	
At end of year	283,677,917	298,776,649

Motor vehicles and other equipment

	2008 Shs	2007 Shs
At start of year	-	-
Increase of revaluation surplus	112,214,068	-
Deferred tax on revaluation surplus	(33,664,220)	-
Transfer of excess depreciation	(4,524,476)	-
Deferred tax on excess depreciation (Note 18)	1,357,343	-
At end of year	75,382,715	-

Revaluation reserves are not distributable.

PLANATORY NOTES (CONTINUED)

17 Borrowings

The borrowings are made up as follows:

	2008 Shs	2007 Shs
Non-current		
Kenya Sugar Board Loan	514,682,706	237,061,485
	514,682,706	237,061,485
Current		
Kenya Sugar Board Loan	53,677,896	325,743,663
Bank overdraft (Note 24)	105,058,934	87,912,883
	158,736,830	413,656,546
Total borrowings	673,419,536	650,718,031

The loans were received from the Kenya Sugar Board (KSB) under the Sugar Development Fund (SDF) program. They are in respect of cane development, irrigation project, nucleus estate roads development, purchase of agricultural equipment, factory rehabilitation and payment of farmers' arrears. While the old unsecured loans are now attracting interest at 5% p.a, the new loans are partially secured and are accruing interest at annual rates varying between 3% and 5%.

Bank overdraft is secured as follows:

a) A debenture for Shs.60 million over the assets of the company.
b) Legal charge over L.R. 1611/4 Kisumu
c) Legal charge over L.R. 11840 Kisumu
d) Legal charge over L.R. 1612/4 Kisumu
e) Lien over funds held in fixed deposits.

The exposure of the company's borrowings to interest rate changes and the contractual reprising dates at the balance sheet date are as follows:

	2008 Shs	2007 Shs
Below 12 months	53,677,896	325,743,663
1 - 5 years	514,682,706	237,061,485
	568,360,602	562,805,148

Weighted average effective interest rates at the year end were:	%	%
Kenya Sugar Board Loan	5	5
Bank overdraft	14	14

In the opinion of the directors, it is impracticable to assign fair values to the company's long-term liabilities due to inability to forecast interest rate.

17 **Borrowings (continued)**

The carrying amounts of the company's borrowings are denominated in Ksh:

	2008 Shs	2007 Shs
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	109,815,357	96,085,4
Between 2 and 5 years	404,867,349	140,976,0[illegible]
	514,682,706	237,061,4[illegible]

During the year the net movement in loans from Kenya Sugar Board is as follows

At start of year	562,805,148	478,860,8
Proceeds during the year	-	126,000,00
Interest charged	21,335,040	20,908,3[illegible]
Repayments during the year	(15,779,586)	(62,964,06
At end of year	568,360,602	562,805,14[illegible]

There was no undrawn facilities as at the balance sheet date.

18 **Deferred tax**

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2007:30%). The movement on the deferred tax account is as follows:

At start of year	299,581,805	265,605,555
income statement charge/(credit) (Note 12)	(196,591,659)	33,976,250
charge to equity	487,512,810	-
At end of year	590,502,956	299,581,805

Deferred tax (assets) and liabilities, deferred tax charge in the profit and loss account are attributable to the following items:

	At 1st July 2007 Shs	Charge/ (credit) to equity Shs	Charge (Credit) to income statement Shs	At 30th June 2008 Shs
Deferred tax liabilities				
Property, plant and equipment				
Historical cost	336,841,915		(150,748,954)	186,092,961
Other temporary differences	56,843,945		(799,939)	56,044,006
Revaluation	-	487,512,810	-	487,512,810
	393,685,860	487,512,810	(151,548,893)	729,649,777
Deferred tax assets				
Tax loss carried forward	(94,104,055)		(45,042,766)	(139,146,821)
	(94,104,055)		(45,042,766)	(139,146,821)
Net deferred tax liability	299,581,805	487,512,810	(196,591,659)	590,502,956

Deferred tax assets on tax losses carried forward are only recognised to the extent of certainty of availability of sufficient future taxable profits to utilise against such losses.

Property, plant and equipment

	Freehold land and buildings Shs	Plant equipment and machinery Shs	Motor vehicles and other equipment Shs	Capital Work In Progress Shs	Total Shs
Year ended 30 June 2008					
At start of year	870,026,260	2,108,322,906	152,292,241	12,555,848	3,143,197,255
Additions	-	135,706,174	28,024,944	25,550,314	189,281,432
Transfer from capital WIP	-	6,795,626	1,318,456	(8,114,082)	-
Increase/(Decrease) on revaluation	540,175,717	(798,250,035)	(61,732,742)	-	(319,807,060)
	1,410,201,977	1,452,574,671	119,902,899	29,992,080	3,012,671,627
Comprising					
Cost	10,247,067	145,037,671	92,987,899	29,992,080	278,264,717
Valuation	1,399,954,910	1,307,537,000	26,915,000	-	2,734,406,910
	1,410,201,977	1,452,574,671	119,902,899	29,992,080	3,012,671,627
Depreciation					
At start of year	149,854,625	1,026,334,867	141,395,403	-	1,317,584,895
Reversal on revaluation	(139,812,497)	(1,023,826,643)	(84,624,163)	-	(1,248,263,304)
Charge for the year	23,953,812	86,543,213	13,541,784	-	124,038,80
At end of year	33,995,940	89,051,437	70,313,024	-	193,360,400
Net book value					
At 30 June 2008	1,376,206,037	1,363,523,235	49,589,875	29,992,080	2,819,311,22
Year ended 30 June 2007					
Cost or valuation					
At start of year	870,026,260	2,031,209,339	149,319,557	38,434,900	3,088,990,056
Additions	-	57,734,515	2,972,684	-	60,707,199
Adjustment	-	(6,500,000)	-	-	(6,500,000)
Transfer from capital WIP	-	25,879,052	-	(25,879,052)	-
	870,026,260	2,108,322,906	152,292,241	12,555,848	3,143,197,255
Comprising					
Cost	177,011,260	1,052,415,735	102,481,739	-	1,331,908,734
Valuation	693,015,000	1,055,907,171	49,810,502	-	1,798,732,673
	870,026,260	2,108,322,906	152,292,241	-	3,130,641,407
Depreciation					
At start of year	134,454,880	915,418,306	135,852,972	-	1,185,726,158
Charge for the year	15,399,745	110,916,561	5,542,431	-	131,858,737
At end of year	149,854,625	1,026,334,867	141,395,403	-	1,317,584,895
Net book value					
At 30 June 2007	720,171,635	1,081,988,039	10,896,838	12,555,848	1,825,612,360

Property, plant and equipment were professionally valued in 2006 by Tysons Limited, Professional Valuers, on the basis of depreciated replacement cost. The book values of the properties were adjusted to the revaluation and the resultant surplus was credited to the revaluation reserve in shareholders equity.

In the opinion of the directors, there is no impairment of property, plant and equipment.

20 Biological assets

	2008 Shs	2007 Shs
a) Bearer assets:		
Plantations - Sugar cane	213,710,595	215,709,287
Consumable assets		
Livestock	435,000	395,000
Total biological assets	214,145,595	216,104,287

b) Details of biological assets:

I Milk cattle

Held for meat and milk purposes

	2008	2007
Quantities at year-end in number of animals		
Mature	13	12
Immature	2	1
Total beef and milk cattle	15	13

II Sugarcane

Held for sugarcane harvesting

	2008	2007
Quantities at year-end in number of acres under sugar cane plantation:		
Plant	286	380
Ratoon	1,688	1,632
	1,974	2,012

c) Determining fair value of agricultural produce:

The valuation of standing cane is based on the estimated market price at the balance sheet date less point of sales costs.

d) Significant assumptions made in determining the fair values of biological assets:

I The market price of cane will not significantly change from Kshs. 2,500 per tonne (2007:2,200)

II Growing cane has a productive life of eighteen months. Cane at age of six months and above is assumed to mature after a period of twelve months after the balance sheet date.

EXPLANATORY NOTES (CONTINUED)

20 **Biological assets (continued)**

d) **Reconciliation of carrying amount of biological assets:**

I **Sugar cane plantations**	**2008 Shs**	**2007 Shs**
- Sugar plantation		
Carrying amount at 1st July	215,709,287	191,922,523
Changes due to:		
New cane plantation	11,993,866	42,173,314
Cane harvested	(57,456,077)	(51,918,362)
Gain/(loss) in fair values:		
Due to physical change	2,836,315	11,764,784
Price difference	40,627,203	21,767,028
Aggregate gain due to changes in fair value (Note 10)	(1,998,692)	23,786,764
Carrying amount at 30 June	213,710,595	215,709,287
Apportionment		
Current portion	126,574,070	107,934,811
Non-current portion	87,136,525	107,774,476
	213,710,595	215,709,287

II **Livestock**		
- As at 1st July	395,000	402,500
Decreases due to		
Sales	(32,500)	(25,000)
Deaths	-	(117,500)
Increase due to		
Births	72,500	12,500
Purchases	-	62,500
Due to physical change	-	60,000
Aggregate gain due to changes in fair value (Note 10)	40,000	(7,500)
Carrying amount at 30 June	435,000	395,000
Total value of biological assets	214,145,595	216,104,287
Current portion	126,574,070	107,934,811
Non-current portion	87,571,525	108,169,476
	214,145,595	216,104,287

21 **Loans to outgrowers**

Co-operative Societies	361,104,198	329,095,843
Large and medium scale farmers	55,318,232	61,893,892
Transport and equipment loans	878,640	833,736
	417,301,070	391,823,471
Less: Impairment	(225,301,183)	(101,420,162)
	191,999,887	290,403,309
Apportionment		
Current portion	145,462,395	273,206,311
Non-current portion	46,537,492	17,196,998
	191,999,887	290,403,309

21 **Loans to outgrowers(continued)**

The company's credit risk arises primarily from loans to outgrowers. All loans are held by farmers in Co-operatives socieities and farmers of large and medium scale. This represents a significant concentration of credit risk. The directors have made a provision for the portion of the outgrowers loans whose recovery is in doubt.

The maximum exposure to credit risk at the reporting date is the fair value of loans to outgrowers. The company has started to operate adequate collateral as security.

In the opinion of the directors, the carrying amounts of loan to outgrowers approximate approximate to their fair value.

22 **Trade and other receivables**

	2008 Shs	2007 Shs
Trade receivables	35,248,969	28,231,146
Deposits and prepayments	43,591,792	29,013,507
Other receivables	80,442,451	83,932,589
	159,283,212	141,177,242
Less: Impairment	(49,372,890)	(32,427,696)
	109,910,322	108,749,546

The company's other credit risk arises from trade and other receivables. The directors have made a provision for the portion of the receivable whose recovery is in doubt.

Individually impaired receivables mainly relate to customers, who are in unexpectedly difficult economic situations. These have been fully provided for as stated above.

The other classes within trade and other receivables do not contain impaired assets.

23 **Inventories**

	2008	2007
Milled sugar	94,870,528	9,060,877
Factory and field stores	371,529,974	338,883,165
Milled sugar-in-process	11,572,339	13,134,251
Filling station	2,772,626	1,849,358
Molasses	1,093,842	276,000
Stationary	1,938,580	1,933,168
Medicines	2,325,841	1,622,687
Goods-In-Transit	72,670,037	37,483,058
	558,773,767	404,242,564
Less: Provision for obsolete inventories	(35,839,655)	(35,839,655)
	522,934,112	368,402,909

Goods in transit is in respect of importation of various spare parts for the manufacturing plant.

24 **Cash and cash equivalents**

	2008	2007
Cash at bank and in hand	13,550,515	26,410,070
Short term bank deposits	12,655,201	30,917,973
	26,205,716	57,328,043

For the purpose of the cash flow statement, the year end cash and cash equivalents the following:

	2008	2007
Cash at bank and in hand	13,550,515	26,410,070
Short term bank deposits	12,655,201	30,917,973
Bank overdraft (Note 17)	(105,058,934)	(87,912,883)
	(78,853,218)	(30,584,840)

The company is not exposed to credit risk on cash and bank balances as these are held with sound financial institutions.

25 Trade and other payables

	2008 Shs	2007 Shs
Cane payables	302,017,654	163,090,132
Trade payables	227,675,629	255,202,916
Other payables and accruals	366,865,587	297,177,011
	896,558,870	715,470,059

The maturity analysis of current trade and other payables is as follows:

	0 to 1 months Shs	1 to 3 months Shs	Over 3 months Shs	Total Shs
Cane payables	51,737,374	88,540,915	161,739,365	302,017,654
Trade payables	139,225,751	37,090,010	51,359,868	227,675,629
Other payables and accruals	328,890,682	6,328,127	31,646,778	366,865,587
	519,853,807	131,959,052	244,746,011	896,558,870

In the opinion of the directors, the carrying amounts of the current portion of trade and other payables approximate to their fair value.

26 Cash generated from operations

Reconciliation of (loss)/profit before tax to cash generated from/(used in) operations

	2008 Shs	2007 Shs
(Loss)/profit before tax	(202,545,556)	119,936,756
Adjustments for:		
Depreciation on property, plant and equipment (Note 19)	124,038,809	131,858,737
Net fair value loss/(gain)on biological assets (Note 10)	1,958,692	(23,779,264)
Interest income	(17,218,021)	(48,808,325)
Interest expense (Note 8)	27,462,386	27,248,507
Amortisation of grant income	(20,610,316)	
Changes in working capital		
Inventories	(154,531,203)	(66,548,162)
Trade and other receivables	(1,160,776)	(56,658,317)
Loan to outgrowers	98,403,422	(15,230,156)
Trade and other payables	181,088,811	(104,982,807)
Cash generated from/(used in) operations	36,886,247	(36,963,031)

27 Contingent liabilities

In the year 2008, the company was issued with a tax arrears and penalties statement in regard to the following

a) **Value Added Tax -Ksh: 54,558,849**
The penalty and interest arising from late payment of VAT.

b) **Sugar Development Levy-Ksh: 20,338,865**
The penalty arising from late payment of SDL.

c) **Pay -As- You-Earn (PAYE) Kshs.3,193,795**
The company taxed directors' allowances (sitting allowance and night outs) at 10% instead of 30%,since the directors' earnings are deemend to fall in highest bracket of 30%.

d) **Withholding VAT : Kshs: 22,834,022**
The amounts was agreed to be paid in two instalments but it was not paid.

The company has objected to the above assessments through their tax agents and the outcome is awaited.

	2008 Shs	2007 Shs
28 Commitments		
Capital commitments		
Capital expenditure contracted for at the balance sheet date is as follows:		
Factory and Agricultural plant and machinery	76,925,400	57,769,843
29 Government grant		
Grant received		
Amount recognised	113,200,000	-
	(20,610,316)	-
KSB grant balance	92,589,684	-
Current	11,362,316	-
Non- current	81,227,368	-
	92,589,684	-

31 **Risk management objectives and policies**

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Currently the company is in the process of establishing a risk management committee who will develop risk management policies to be used in identifying,evaluating and hedging of financial risks in close co-operation with various departmental heads.

a) **Market Risk**

- *Foreign exchange risk*
  The company's financial transactions are denominated in Kshs, and are there fore not exposed to fore currency risks.

- *Interest rate risk*
  The company is exposed to interest rate risk as it borrows fund from Kenya Sugar board and through bank overdrafts.The risk is managed by negotiating for a fixed rate with the Banks over a period of time. For Kenya Sugar Board loans,the company negotiates for an extended repayment schedule that does not expose the company to penalties.

At 30 June 2008, if interest rates at that date had been 10 percentage higher with all other variables held constant, post-tax profit for the year would have been Shs. 1,922,367 (2007: Shs. 1,907,395) lower, arising mainly as a result of higher interest expense on variable borrowings.

9 Property, plant and equipment

	Freehold land and buildings Shs	Plant equipment and machinery Shs	Motor vehicles and other equipment Shs	Capital Work In Progress Shs	Total Shs
Year ended 30 June 2008					
At start of year	870,026,260	2,108,322,906	152,292,241	12,555,848	3,143,197,255
Additions	-	135,706,174	28,024,944	25,550,314	189,281,432
Transfer from capital WIP	-	6,795,626	1,318,456	(8,114,082)	-
Increase/(Decrease) on revaluation	540,175,717	(798,250,035)	(61,732,742)	-	(319,807,060)
	1,410,201,977	1,452,574,671	119,902,899	29,992,080	3,012,671,627
Comprising					
Cost	10,247,067	145,037,671	92,987,899	29,992,080	278,264,717
Valuation	1,399,954,910	1,307,537,000	26,915,000	-	2,734,406,910
	1,410,201,977	1,452,574,671	119,902,899	29,992,080	3,012,671,627
Depreciation					
At start of year	149,854,625	1,026,334,867	141,395,403	-	1,317,584,895
Reversal on revaluation	(139,812,497)	(1,023,826,643)	(84,624,163)	-	(1,248,263,304
Charge for the year	23,953,812	86,543,213	13,541,784	-	124,038,80
At end of year	33,995,940	89,051,437	70,313,024	-	193,360,400
Net book value					
At 30 June 2008	1,376,206,037	1,363,523,235	49,589,875	29,992,080	2,819,311,22
Year ended 30 June 2007					
Cost or valuation					
At start of year	870,026,260	2,031,209,339	149,319,557	38,434,900	3,088,990,056
Additions	-	57,734,515	2,972,684	-	60,707,199
Adjustment	-	(6,500,000)	-	-	(6,500,000
Transfer from capital WIP	-	25,879,052	-	(25,879,052)	-
	870,026,260	2,108,322,906	152,292,241	12,555,848	3,143,197,255
Comprising					
Cost	177,011,260	1,052,415,735	102,481,739	-	1,331,908,734
Valuation	693,015,000	1,055,907,171	49,810,502	-	1,798,732,673
	870,026,260	2,108,322,906	152,292,241	-	3,130,641,407
Depreciation					
At start of year	134,454,880	915,418,306	135,852,972	-	1,185,726,158
Charge for the year	15,399,745	110,916,561	5,542,431	-	131,858,737
At end of year	149,854,625	1,026,334,867	141,395,403	-	1,317,584,895
Net book value					
At 30 June 2007	720,171,635	1,081,988,039	10,896,838	12,555,848	1,825,612,360

Property, plant and equipment were professionally valued in 2006 by Tysons Limited, Professional Valuers, on the basis of depreciated replacement cost. The book values of the properties were adjusted to the revaluation and the resultant surplus was credited to the revaluation reserve in shareholders equity.

In the opinion of the directors, there is no impairment of property, plant and equipment.

EXPLANATORY NOTES (CONTINUED)

20 **Biological assets**

	2008 Shs	2007 Shs
a) **Bearer assets:**		
Plantations - Sugar cane	213,710,595	215,709,287
Consumable assets		
Livestock	435,000	395,000
Total biological assets	214,145,595	216,104,287

b) **Details of biological assets:**

I **Milk cattle**

Held for meat and milk purposes

	2008	2007
Quantities at year-end in number of animals		
Mature	13	12
Immature	2	1
Total beef and milk cattle	15	13

II **Sugarcane**

Held for sugarcane harvesting

	2008	2007
Quantities at year-end in number of acres under sugar cane plantation:		
Plant	286	380
Ratoon	1,688	1,632
	1,974	2,012

c) **Determining fair value of agricultural produce:**

The valuation of standing cane is based on the estimated market price at the balance sheet date less point of sales costs.

d) **Significant assumptions made in determining the fair values of biological assets:**

I The market price of cane will not significantly change from Kshs. 2,500 per tonne (2007:2,200)

II Growing cane has a productive life of eighteen months. Cane at age of six months and above is assumed to mature after a period of twelve months after the balance sheet date.

EXPLANATORY NOTES (CONTINUED)

20 **Biological assets (continued)**

d) **Reconciliation of carrying amount of biological assets:**

I Sugar cane plantations

	2008 Shs	2007 Shs
- Sugar plantation		
Carrying amount at 1st July	215,709,287	191,922,523
Changes due to:		
New cane plantation	11,993,866	42,173,314
Cane harvested	(57,456,077)	(51,918,362)
Gain/(loss) in fair values:		
Due to physical change	2,836,315	11,764,784
Price difference	40,627,203	21,767,028
Aggregate gain due to changes in fair value (Note 10)	(1,998,692)	23,786,764
Carrying amount at 30 June	213,710,595	215,709,287
Apportionment		
Current portion	126,574,070	107,934,811
Non-current portion	87,136,525	107,774,476
	213,710,595	215,709,287

II Livestock

	2008 Shs	2007 Shs
- As at 1st July	395,000	402,500
Decreases due to		
Sales	(32,500)	(25,000)
Deaths	-	(117,500)
Increase due to		
Births	72,500	12,500
Purchases	-	62,500
Due to physical change	-	60,000
Aggregate gain due to changes in fair value (Note 10)	40,000	(7,500)
Carrying amount at 30 June	435,000	395,000
Total value of biological assets	214,145,595	216,104,287
Current portion	126,574,070	107,934,811
Non-current portion	87,571,525	108,169,476
	214,145,595	216,104,287

21 **Loans to outgrowers**

	2008 Shs	2007 Shs
Co-operative Societies	361,104,198	329,095,843
Large and medium scale farmers	55,318,232	61,893,892
Transport and equipment loans	878,640	833,736
	417,301,070	391,823,471
Less: Impairment	(225,301,183)	(101,420,162)
	191,999,887	290,403,309
Apportionment		
Current portion	145,462,395	273,206,311
Non-current portion	46,537,492	17,196,998
	191,999,887	290,403,309

21 Loans to outgrowers(continued)

The company's credit risk arises primarily from loans to outgrowers. All loans are held by farmers in Co-operatives socieities and farmers of large and medium scale. This represents a significant concentration of credit risk. The directors have made a provision for the portion of the outgrowers loans whose recovery is in doubt.

The maximum exposure to credit risk at the reporting date is the fair value of loans to outgrowers. The company has started to operate adequate collateral as security.

In the opinion of the directors, the carrying amounts of loan to outgrowers approximate approximate to their fair value.

22 Trade and other receivables

	2008 Shs	2007 Shs
Trade receivables	35,248,969	28,231,146
Deposits and prepayments	43,591,792	29,013,507
Other receivables	80,442,451	83,932,589
	159,283,212	141,177,242
Less: Impairment	(49,372,890)	(32,427,696)
	109,910,322	108,749,546

The company's other credit risk arises from trade and other receivables. The directors have made a provision for the portion of the receivable whose recovery is in doubt.

Individually impaired receivables mainly relate to customers, who are in unexpectedly difficult economic situations. These have been fully provided for as stated above.

The other classes within trade and other receivables do not contain impaired assets.

23 Inventories

	2008	2007
Milled sugar	94,870,528	9,060,877
Factory and field stores	371,529,974	338,883,165
Milled sugar-in-process	11,572,339	13,134,251
Filling station	2,772,626	1,849,358
Molasses	1,093,842	276,000
Stationary	1,938,580	1,933,168
Medicines	2,325,841	1,622,687
Goods-In-Transit	72,670,037	37,483,058
	558,773,767	404,242,564
Less: Provision for obsolete inventories	(35,839,655)	(35,839,655)
	522,934,112	368,402,909

Goods in transit is in respect of importation of various spare parts for the manufacturing plant.

24 Cash and cash equivalents

	2008	2007
Cash at bank and in hand	13,550,515	26,410,070
Short term bank deposits	12,655,201	30,917,973
	26,205,716	57,328,043

For the purpose of the cash flow statement, the year end cash and cash equivalents the following:

	2008	2007
Cash at bank and in hand	13,550,515	26,410,070
Short term bank deposits	12,655,201	30,917,973
Bank overdraft (Note 17)	(105,058,934)	(87,912,883)
	(78,853,218)	(30,584,840)

The company is not exposed to credit risk on cash and bank balances as these are held with sound financial institutions.

PLANATORY NOTES (CONTINUED)

25 Trade and other payables

	2008 Shs	2007 Shs
Cane payables	302,017,654	163,090,132
Trade payables	227,675,629	255,202,916
Other payables and accruals	366,865,587	297,177,011
	896,558,870	715,470,059

The maturity analysis of current trade and other payables is as follows:

	0 to 1 months Shs	1 to 3 months Shs	Over 3 months Shs	Total Shs
Cane payables	51,737,374	88,540,915	161,739,365	302,017,654
Trade payables	139,225,751	37,090,010	51,359,868	227,675,629
Other payables and accruals	328,890,682	6,328,127	31,646,778	366,865,587
	519,853,807	131,959,052	244,746,011	896,558,870

In the opinion of the directors, the carrying amounts of the current portion of trade and other payables approximate to their fair value.

26 Cash generated from operations

Reconciliation of (loss)/profit before tax to cash generated from/(used in) operations

	2008 Shs	2007 Shs
(Loss)/profit before tax	(202,545,556)	119,936,756
Adjustments for:		
Depreciation on property, plant and equipment (Note 19)	124,038,809	131,858,737
Net fair value loss/(gain)on biological assets (Note 10)	1,958,692	(23,779,264)
Interest income	(17,218,021)	(48,808,325)
Interest expense (Note 8)	27,462,386	27,248,507
Amortisation of grant income	(20,610,316)	
Changes in working capital		
Inventories	(154,531,203)	(66,548,162)
Trade and other receivables	(1,160,776)	(56,658,317)
Loan to outgrowers	98,403,422	(15,230,156)
Trade and other payables	181,088,811	(104,982,807)
Cash generated from/(used in) operations	36,886,247	(36,963,031)

27 Contingent liabilities

In the year 2008, the company was issued with a tax arrears and penalties statement in regard to the following

a) **Value Added Tax -Ksh: 54,558,849**
The penalty and interest arising from late payment of VAT.

b) **Sugar Development Levy-Ksh: 20,338,865**
The penalty arising from late payment of SDL.

c) **Pay -As- You-Earn (PAYE) Kshs.3,193,795**
The company taxed directors' allowances (sitting allowance and night outs) at 10% instead of 30%,since the directors' earnings are deemend to fall in highest bracket of 30%.

d) **Withholding VAT : Kshs: 22,834,022**
The amounts was agreed to be paid in two instalments but it was not paid.

The company has objected to the above assessments through their tax agents and the outcome is awaited.

EXPLANATORY NOTES (CONTINUED)

	2008 Shs	2007 Shs
28 Commitments		
Capital commitments		
Capital expenditure contracted for at the balance sheet date is as follows:		
Factory and Agricultural plant and machinery	76,925,400	57,769,843
29 Government grant		
Grant received	113,200,000	-
Amount recognised	(20,610,316)	-
KSB grant balance	92,589,684	-
Current	11,362,316	-
Non- current	81,227,368	-
	92,589,684	-

31 **Risk management objectives and policies**

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Currently the company is in the process of establishing a risk management committee who will develop risk management policies to be used in identifying,evaluating and hedging of financial risks in close co-operation with various departmental heads.

a) **Market Risk**

- *Foreign exchange risk*
  The company's financial transactions are denominated in Kshs, and are there fore not exposed to fore currency risks.

- *Interest rate risk*
  The company is exposed to interest rate risk as it borrows fund from Kenya Sugar board and through bank overdrafts.The risk is managed by negotiating for a fixed rate with the Banks over a period of time. For Kenya Sugar Board loans,the company negotiates for an extended repayment schedule that does not expose the company to penalties.

  At 30 June 2008, if interest rates at that date had been 10 percentage higher with all other variables held constant, post-tax profit for the year would have been Shs. 1,922,367 (2007: Shs. 1,907,395) lower, arising mainly as a result of higher interest expense on variable borrowings.

31 **Risk management objectives and policies (continued)**

a) **Market Risk (continued)**

- *Price risk*
  The company does not hold any equity investment hence it is not exposed to equity securities price risk .

b) **Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

The company's policy on Sugar sales is payment before delivery by cash or bankers cheques.This largely limits the exposure to credit risk.For credit customers an approved credit period is granted for customers who have been vetted and approved.

The company's policy on Cane development loans is that the loans are granted to farmers who meet the loaning conditions which include provision of adequate collateral cover.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

(c) **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet obligation as they fall due.

The company manages liquidity risk by maintaining banking facilties and Kenya Sugar Board Loans, and continuosly monitoring, forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Notes 17 and 25 disclose the maturity analysis of borrowings and trade and other payables respectively.

32. **Capital management**

The company's objectives when managing capital are:
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

33. **Country of Incorporation**

Chemelil Sugar Company Limited is incorporated in Kenya under the Companies Act as a public limited liability company and is domiciled in Kenya.

34. **Presentation currency**

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