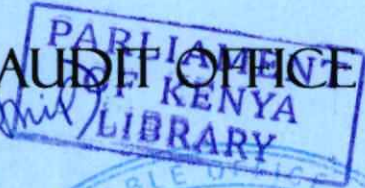


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



*Paper laid
By Hon. K.O. Meito (majority party)
on Thurs. 19.11.2015 (pm)
K.M.M.*

REPORT

OF

KENYA NATIONAL AUDIT OFFICE

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
CHEMELIL SUGAR COMPANY
LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2014**



Chemelil Sugar Company
Reports and Financial Statements
For the year ended June 30,2014

KENYA NATIONAL AUDIT OFFICE

P. O. Box 30084 - 00100, NAIROBI.

25 FEB 2015

RECEIVED

CHEMELIL SUGAR COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2014**

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

**CHEMELIL SUGAR COMPANY LIMITED
FINANCIAL STATEMENTS**

CONTENTS	Page
Company Information	1 - 2
Report of the Directors	3
Statement of Directors' Responsibilities	4
Report of Managing Director	5
Corporate Governance	6-7
Report of Chairperson	8-9
Corporate Social Responsibility	10
Report of the Independent Auditors	11-13
Financial Statements:	
Statement of Comprehensive Income	14
Statement of Financial Position	15
Statement of Changes in Equity	16
Statement of Cash Flows	17
Notes to the Financial Statements	18 - 38

COMPANY INFORMATION

BOARD OF DIRECTORS

Mrs. Margaret Kwengwa Chemengich	- Chairperson
Mr. Charles A. Owelle	- Managing Director
Permanent Secretary, Ministry of Agriculture	- Alternate, Chebii Kilel
Permanent Secretary, Ministry of Finance	- Alternate, Mr. Walter Ogwindo
Development Bank of Kenya	- Alternate, Mr. Jacob Mananda
Agricultural Development Corporation(K) LTD	- Alternate, Dr. Amdrew Tuimur
VIVO Energy(K) LTD	- Alternate,Mr. polycarp Igate appointed 9.9.2013, Mr. Munyao retired on 9.9.2013.
Mr. Samson Cherambos	- Independent
Mr. David Sangutei	- Independent

CHIEF OFFICERS

Mr. Charles A. Owelle	- Managing Director
Mr. Joseph William Omondi	- Head of Finance
Mr. Albert Aki	- Head of Agriculture
Mr. Raphael O. Kamemba	- Head of Factory
Mrs. Jacinta Kipkering	- Head of Human Resources
Mr. Titus Koech	- Head of Marketing (Ag)
Mr. Henry Okeyo	- ICT Manager
Mr. Peter Sawe	- Internal Audit Manager
Mrs. Elizabeth Kyulu	- Legal Services Manager
Mr. Joel Kiplagat	- Harvesting Manager

REGISTERED OFFICE

L R NO. 11840
Awasi - Nandi Hills Road
P. O. Box 177 - 40107
MUHORONI

INDIPENDENT AUDITOR

Matengo and Associates
Financial & Management Consultants
P. O. Box 67603-00200
NAIROBI.

On behalf of:
The Auditor-General
P. O. Box 30084 - 00100
NAIROBI.

COMPANY SECRETARY

Image Registrars

Chemelil Sugar Company
Reports and Financial Statements
For the year ended June 30,2014

Certified Public Secretaries
P. O. Box 72133 - 00100
NAIROBI.

CORPORATE INFORMATION (Continued)

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
KISUMU

Otieno Ragot & Company
P. O. Box 3051 - 40100
KISUMU

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 the company maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years and in conformity with International Financial Reporting Standards and the requirements of the Kenyan 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 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 system of internal controls

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

Approved by the board of directors on 2014 and signed on its behalf by:

fr 
.....
CHAIRPERSON.


.....
MANAGING DIRECTOR.

REPORT OF MANAGING DIRECTOR

It is my pleasure once again to report on the performance of Chemelil Sugar Company Limited for the year ended 30 June 2014 as follows:

Overview

There was a remarkable improvement in performance in the year under review as the loss decrease from Kshs. 938.16 Million made in previous year to Ksh. 339.16 Million in the year under review. The overall operating environment was unstable as the sugar prices in the market were low impacting negatively on profitability. There was also stiff competition for cane from other millers. Company continued with its operation after closure of factory for annual maintenance which was carried out in second and third quarter of 2012/2013 with aim of improving factory parameters. Though the factory performance index reflected an improvement in the year under review, the overall performance for the year was an operating loss

Operations

Despite competition for raw material total of 482,881 tonnes (2013 – 140,527 tonnes) of cane was milled in the year. The Nucleus Estate supplied 54,137 tonnes (2013- 28,570 tonnes) of cane, representing 11% of the total cane supply while the farmers supplied 427,744 tonnes (89%) of cane worth KShs 1.4 billion.

All the cane supplied was ground at a TC/TS ratio of 11.81 to produce 40,876 (2013 – 7,373) tonnes of sugar, the production represents a 454% increase compared to the previous year. Sugar quality remained high as the Company retained the Kenya Bureau of Standards (KEBS) Diamond Mark of Quality in both mill white and brown sugars.

Future Prospects

The Company's 5- year strategic plan (2012/13– 2016/2017) major objective is to avail cane supply of 580,000 tonnes in 2012/2013 and increase progressively to 840,000 tonnes in the year 2016/2017 by the end of the 5- years period. Cane yield is also projected to increase from 51TCH to 63 TCH .These objectives will mitigate the inadequate cane availability and supply to factory. The Company also plans to attain optimum utilization of factory capacity at 3,000 TCD and 260 tonnes.The goal of the strategic plan is to achieve optimal operational capacity while at the same time widening the Company's revenue base through diversification into new product lines as we move into a fully liberalized economy.

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 Directorate for the loans given to us during the year, 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 to ensure the above achievements. As we move into the eighth cycle of the performance contracting process, the Board is optimistic that we shall all improve our performance, meet our targets and better the future for the Company.



MANAGING DIRECTOR

CORPORATE GOVERNANCE STATEMENT

Chemelil Sugar Company Limited is committed to the new standards of Corporate Governance introduced by the Capital Markets Authority. The Board of Directors is responsible for the long term growth and profitability of the Company, whilst being accountable to the shareholders for compliance with the law and maintaining the highest standards of corporate governance and business ethics.

The Board of Directors

The Board is made up of a substantial number of independent, non-executive Directors, including the Chairman. The Directors are given appropriate and timely information so that they can maintain full and effective control over all strategic, financial, operational and compliance issues. All the non-executive Directors on the Board are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment.

Whilst the day to day running of the business of the Company is delegated to the Managing Director who is also the Chief Executive Officer, the Board is responsible for establishing and maintaining the Company's system of internal controls so that its objectives for increased growth in profitability and shareholder value are realized.

Board Meetings

The Board of Directors meets every quarter in order to monitor the Company's planned strategy and review it in conjunction with its financial performance. Specific reviews of management performance, operational issues and future planning are also undertaken. The Board has a formal schedule of matters reserved to it and in this regard all directors have access to the Company Secretary.

Board Committees

There are four principal committees that meet regularly under the terms of reference set by the Board.

1. Audit Committees

The Board has constituted an Audit Committee, which meets bi-monthly, or as required. Its responsibilities include the review of interim and full year financial statements so as to ensure compliance with accounting standards and other disclosure requirements; the maintenance of the Company's system of accounting and internal controls; liaison with the external auditors of the Company and putting into effect their recommendations. The external auditors, internal auditors and the Banks management may be called to attend any Meetings of the Committee to clarify any issues as required by the Committee.

2. Credit Committee

The Credit Committee meets two times a month to review the risk profile of the KCB Group and recommends to the Board policies and standards for risk governance and management. The frequency of meetings has ensured that the needs of the Bank's customers are given timely attention.

3. Human Resources Committee

The Human Resources Committee meets bi-monthly and is mandated to review human resource policies and also make suitable recommendations to the Main Board on senior management appointments.

4. Information Technology Committee

The Information Technology Committee meets bi-monthly to review information technology needs of the Bank and make recommendations to the Main Board on suitable technological requirements by the Group for efficient service delivery.

The Board appoints other committees as and when required.

Communication with Shareholders

The Company is committed to ensuring that shareholders and the financial markets are provided with full and timely information about its performance. This is usually done through the distribution of the Company's Annual Report and the release of notices in the national press of its quarterly and annual results.

In this regard, the Company complies with its obligations contained in the Nairobi Stock Exchange's Listing Rules, the Capital Markets Authority Act, the Banking Act and Regulations from Central Bank of Kenya.

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year 2014 is disclosed in note 7 to the financial statements.

Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the Company is a party, whereby Directors might acquire benefits by means of the acquisition of the Company's shares.

Overview

The Company continued with its operation after closure of factory for annual maintenance which was carried out in second and third quarter of 2012/2013 with aim of improving factory parameters. Though the factory performance index reflected an improvement in the year under review, the overall performance for the year was an operating loss arising from declining sugar prices and increasing competition for cane.

Operations

A total of 482,881 tonnes (2013 – 140,527 tonnes) of cane was ground in the year. The Nucleus Estate supplied 54,137 tonnes (2013- 28,570 tonnes) of cane, representing 11% of the total cane supply while the farmers supplied 427,744 tonnes (89%) of cane worth KShs 1.4 billion.

All the cane supplied was ground at a TC/TS ratio of 11.81 to produce 40,876 (2013 – 7,373) tonnes of sugar, the production represents a 454% increase compared to the previous year. Sugar quality remained high as the Company retained the Kenya Bureau of Standards (KEBS) Diamond Mark of Quality in both mill white and brown sugars.

The Company expanded its market share by increasing sales of branded sugar. This was achieved after installation of a new branding machine during the annual maintenance.

During the year the Company received a total of Kshs. 314 million from Sugar Directorate. The Company utilized Kshs.192 million of the loan in paying farmers arrears, Kshs 79 million in cane development and Kshs 43 million in part payment for Turbine Alternator procurement. The Company also received irrigation grant of Kshs 10 million to enhance its irrigation projects. This is expected to result in increased cane supply.

Financial Results

The Company recorded a pre-tax loss of KShs. 359 million in the year. This was a 63% decrease in the loss recorded as compared to the previous year loss of Kshs. 938.16 million. The loss was attributed mainly to depressed sugar prices

Future Prospects

The Company's 5- year strategic plan (2012/13– 2016/2017) major objective is to avail cane supply of 580,000 tonnes in 2012/2013 and increase progressively to 840,000 tonnes in the year 2016/2017 by the end of the 5- years period. Cane yield is also projected to increase from 51TCH to 63 TCH .These objectives will mitigate the inadequate cane availability and supply to factory. The Company also plans to attain optimum utilization of factory capacity at 3,000 TCD and 260 tonnes.The apex goal of the strategic plan is to achieve optimal operational capacity while at the same time widening the Company's revenue base through diversification into new product lines as we move into a fully liberalized economy.

The COMESA safeguard measures ends by February 2015. The Company's improved performance levels should enable it survive competition, the Company will continue with its factory expansion program and increase the branded sugar production. Cost reduction initiatives will continue to be implemented to return the company to profitability. More land in the catchment area is being put under cane to meet the factory expansion requirements and irrigation project is being enhanced. The cane development programme will continue into the next year where a further 3,500 hectares are targeted.

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 Directorate for the loans given to us during the year, 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 to ensure the above achievements. As we move into the eighth cycle of the performance contracting process, the Board is optimistic that we shall all improve our performance, meet our targets and better the future for the Company.



for CHAIRMAN

Chemelil Sugar Company has a vibrant Corporate Social Responsibility (CSR) programme domiciled within Public Relations Section. The CSR programme plays a critical role in enhancing the firm's business operations and mutual relations between the Company and its various stakeholders, who include members of the immediate surrounding community, sugarcane farmer, cane transporters, sugar and molasses buyers, employees, suppliers, media, shareholders and Government institutions and agencies.

Chemelil Sugar Company's CSR programme is underpin by the principle and policy of corporate sharing with stakeholders. Through the CSR donations the various stakeholders (Publics) and more particularly members of the firm's immediate surrounding community are made to understand and appreciate the importance of the existence and operations of the Company within its business operating environment and be supportive towards the organizations objectives and goals. Ultimately at the national level other stakeholders also appreciate and become supportive. And, the Company's CSR programme is managed and administered through a Company appointed CSR committee with secretariat functions provided by Public Relations and it comprises senior management staff drawn mostly from the following departments: Agriculture Department, Human Resource, Finance and Public Relations.

The Company CSR committee guided by a draft CSR policy is expected to meet once every month to analyse various CSR requests and make recommendations to management for various material and financial assistance that cuts across diverse political and socio-economic stakeholders. However, most of the CSR donations and financial assistance has over the period of the programme's existence tended to benefit mostly the Company's cane farming community and educational institutions spread across Kisumu and Nandi Counties.

REPUBLIC OF KENYA

Telephone: +254-20-3342330
Fax: +254-20-3311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



NAIROBI HUB
P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Chemelil Sugar Company Limited set out on pages 14 to 38, which comprise the statement of financial position as at 30 June, 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Matengo & Associates, auditors appointed under the provisions of Section 39 of the Public Audit Act, 2003. The audit has been carried out in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether 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 making material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Export Sugar

As reported in the previous year, information available indicated that on diverse dates between the months of March and May 2008, the Company irregularly and in contravention of the VAT Act, Cap 476 of the Laws of Kenya, sold 118,144 units of 50kg bags of sugar valued at Kshs.256,440,648 net of VAT to three companies ostensibly for export to Southern Sudan.

However, information available indicated that the sugar was not exported but was apparently sold in the local market. As a result of the irregular sale, Kenya Revenue Authority demanded a sum of Kshs.43,768,675 from the Company in unremitted VAT and penalties, which the company indicates it paid. It was however, not satisfactorily explained how sugar meant for export ended up in the local market. Further, although it has been explained that the issue has now been handed over to the Ethics and Anti-corruption Commission for investigations, the same had not been concluded as at the time of this report.

2. Long-Term Service Dues and Gratuity

As reported in the previous year, included in the other accrued liabilities is Kshs.275,855,040 relating to provision for long term service dues and gratuity disclosed under note 18 of the financial statements. The company did not undertake an actuarial valuation of these provisions as per the requirements of International Accounting Standards (IAS) 19 – Employee Benefits. It is not practicable to quantify the financial effects of the misstatements.

3. Statutory liabilities

The Company has not been paying statutory liabilities due to the Kenya Revenue Authority and the Kenya Sugar Board on the due dates. The management has included Kshs.982,476,051 for these liabilities in the trade and other payables balance disclosed under note 26 of the financial statements. However, the accuracy, completeness, existence and valuation of this balance could not be verified in the absence of a detailed analysis of the amount. Interest and penalties on the outstanding balance have not been quantified by the management. The Company indicated that a payment plan has been agreed with the regulatory bodies, however the plan with Kenya Revenue Authority (KRA) availed for audit verification covered only the arrears accruing between January to June 2014.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the

financial position of the Company as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap. 486 of the Laws of Kenya.

Emphasis of matter

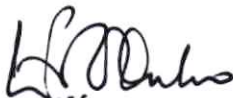
Going Concern

The statement of comprehensive income for the year ended 30 June 2014 reflects a loss of Kshs.359,472,098 resulting in accumulated losses of Kshs.2,974,014,741. In addition, the current liabilities balance of Kshs.1,996,425,572 exceeded the current assets figure of Kshs.753,252,468 resulting in a negative working capital of Kshs.1,243,173,104 as at 30 June 2014. The company is therefore technically insolvent and the financial statements have been prepared on a going concern basis on the assumption that it will continue to receive financial support from the Government, creditors and bankers. My opinion is not qualified on this respect.

REPORT ON OTHER LEGAL AND REPORTING REQUIREMENTS

As required by the Kenya Companies Act, 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, proper books of account have been kept by the Company, so far as appears from my examination of those books; and ;
- iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

13 February 2015

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2014 KShs	2013 KShs
Revenue	2	2,501,489,793	561,741,019
Cost of Sales	3	<u>(2,343,745,768)</u>	<u>(1,201,561,520)</u>
Gross (loss)/profit		157,744,025	(639,820,501)
Fair Value (loss) in biological assets	4	(65,892,531)	(3,111,897)
Other operating income	5	34,860,632	60,511,045
Administrative expenses	6	(370,889,067)	(256,365,755)
Other charges and expenses	7	:	<u>(1,838,137)</u>
Operating (loss)	8	(244,176,940)	(840,625,245)
Finance costs	9	(118,044,536)	(98,966,658)
Finance income	10	<u>2,749,378</u>	<u>1,423,402</u>
(Loss) before tax		(359,472,098)	(938,168,501)
Tax	12	:	:
(Loss) for the year		<u>(359,472,098)</u>	<u>(938,168,501)</u>
Other comprehensive income:			
Revaluation surplus on property, plant and equipment			2,092,958,061
Deffered tax on revaluation surplus of property, plant and equipment			
Total comprehensive income for the year		:	<u>1,154,789,560</u>
(Loss) per share	13	<u>(33.97)</u>	<u>(88.68)</u>

The notes on pages 5 to 31 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

Chemelil Sugar Company
 Reports and Financial Statements
 For the year ended June 30,2014

	Note	2014 KShs	2013 KShs
ASSETS			
Non-Current assets			
Property, plant and equipment	20	4,428,052,310	4,545,458,348
Biological assets	21	<u>53,667,912</u>	<u>12,002,473</u>
		<u>4,481,720,222</u>	<u>4,557,460,821</u>
Current assets			
Biological assets	21	100,929,194	207,127,981
Inventories	24	434,330,061	334,436,299
Loans to out growers	22	13,342,289	11,379,441
Trade and other receivables	23	135,641,540	84,959,365
Tax recoverable		15,183,641	15,792,158
Bank and cash balances	25	<u>53,825,743</u>	<u>27,958,891</u>
		<u>753,252,468</u>	<u>681,654,135</u>
TOTAL ASSETS		<u>5,234,972,690</u>	<u>5,239,114,956</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	14	211,591,620	211,591,620
Asset revaluation reserve	15	3,140,738,185	3,140,738,185
Retained Earnings		<u>(2,974,014,741)</u>	<u>(2,614,542,643)</u>
Shareholders' funds		<u>378,315,064</u>	<u>737,787,162</u>
Non-current liabilities			
Borrowings	16	2,531,769,952	2,197,824,446
Other accrued liabilities	18	305,408,630	334,212,016
Government grant	19	<u>23,053,472</u>	<u>24,415,788</u>
Total non-current liabilities		<u>2,860,232,054</u>	<u>2,556,452,250</u>
CURRENT LIABILITIES			
Trade and other payables	26	1,870,749,282	1,861,071,423
Borrowings	16	104,614,187	62,742,018
Government grant	19	11,362,316	11,362,316
Dividends payable		<u>9,699,787</u>	<u>9,699,787</u>
Total current liabilities		<u>1,996,425,572</u>	<u>1,944,875,544</u>
TOTAL EQUITY AND LIABILITIES		<u>5,234,972,690</u>	<u>5,239,114,956</u>

The financial statements on pages 5 to 31 were approved and authorized for issue by the Board of Directors on.....2014 and signed on its behalf by:-

.....) CHAIRPERSON

.....) MANAGING DIRECTOR

The notes on pages 5 to 31 form an integral part of the financial report.

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital KShs.	Revaluation reserve KShs.	Retained Earnings KShs.	Total KShs.
As at 30 th June 2013		211,591,620	1,067,106,575	(1,695,700,593)	(417,002,398)
On revaluation		-	2,092,958,061	-	2,092,958,061
Transfer of excess depreciation	15	-	(19,326,451)	19,326,451	-
Total comprehensive (loss)		-	-	<u>(938,168,501)</u>	<u>(938,168,501)</u>
At end of year		<u>211,591,620</u>	<u>3,140,738,185</u>	<u>(2,614,542,643)</u>	<u>737,787,162</u>
Year ended 30th June 2014					
A start of year		211,591,620	3,140,738,185	(2,614,542,643)	737,787,162
Realised on disposal		-	-	-	-
Transfer of excess depreciation		-	-	-	-
Loss for the year		-	-	<u>(359,472,098)</u>	<u>(359,472,098)</u>
At end of year		<u>211,591,620</u>	<u>3,140,738,185</u>	<u>(2,974,014,741)</u>	<u>378,315,064</u>

The notes on pages 5 to 31 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

	Note	2014 KShs	2013 KShs
OPERATING ACTIVITIES			
Cash (used in) / generated from operations	28	(359,625,017)	(303,557,870)
Interest paid		(9,330,439)	(98,966,658)
Interest received		2,749,378	1,423,402
Tax paid		:	(95,280)
Net cash (used in) / generated from operating activities		<u>(366,206,078)</u>	<u>(401,196,406)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	20	(10,246,594)	(113,404,216)
Proceeds on disposal of property , plant and equipment		<u>4,181,550</u>	<u>721,200</u>
Net cash used in investing activities		<u>(6,065,044)</u>	<u>(112,683,106)</u>
FINANCING ACTIVITIES			
Proceeds from Kenya Sugar Board (KSB) borrowings		324,965,905	535,151,122
Repayment of KSB borrowings		(37,074,570)	(15,154,760)
Net movement in bank borrowings		14,404,719	143,605,815
Interest charged		84,719,082	69,053,391
Directors' account		:	<u>(4,100,000)</u>
Net cash generated from financing activities		<u>387,015,136</u>	<u>728,555,568</u>
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		<u>14,744,014</u>	<u>214,676,146</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>10,816,872</u>	<u>(203,859,274)</u>
Increase/(Decrease)		<u>14,744,014</u>	<u>214,676,146</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	25	<u>25,560,886</u>	<u>10,816,872</u>

The notes on page 5 to 31 form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. 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 years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared on the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS).

The financial statements comply with the requirements of the Kenyan companies Act. The statement of profit and loss and the statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

(i) New and amended standards adopted by the company

The Company has applied the amendments to IAS 1 presentation of items of other comprehensive income in advance of the effective date. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1 the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The effective date is for annual periods beginning on or after 1 July 2012.

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2014 and not adopted in advance of the effective date.

Impact of standards and interpretation:

The directors anticipate that the adoption of new Standards, Amendments and Interpretations resulting from the International Accounting Standards Board (IASB)'s improvements to IFRS issued in 2012 will have no material impact on the financial statements of the company. The IASB's annual improvements process deals with non-urgent, minor amendments to standards.

(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) Key sources of estimation uncertainty

Management has made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

-**Biological assets**-In arriving at the fair valuation of biological assets, the management estimates the success rate of harvesting at 60 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. 26,510,052. The significant assumptions used are set out in Note 21.

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

-Whether inventories have become obsolete.

(c) Revenue recognition

Revenue represents the value of sugar and molasses supplied by the company net of sugar Development Fund Levy, Value Added Tax rebates and discounts. The major variance in revenue in the year 2014 compared to the year 2013 was because there was a factory rehabilitation for six months hence less revenue generated in the year 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

The company recognizes 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 the 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 recognized upon delivery of products and customer acceptance.

(ii) Interest income is accounted for in the period it is earned.

(iii) Rental income is accounted for in the period it is earned.

(iv) other income is recognized as it accrues

(d) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into the functional currency, Kenya Shillings, using the exchange rates prevailing at the dates of the transactions. Assets and liabilities at the reporting date expressed in the foreign currencies are translated into Kenya shillings at the rates rulling as at that date. The resulting differences from conversion and translation are dealt with in profit and loss account in the year in which they arise.

(e) Property, Plant and Equipment

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition for its intended use.

Freehold land, buildings and plant and machinery are subsequently shown at the market values, 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 recognized 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 derecognized. All other repairs and maintenance are recognized in the profit or loss account in the financial period in which they are incurred.

Increase 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 statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of comprehensive income) and depreciation based on the asset's original cost is transferd from the revaluation reserve to retained earnings.

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

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

	<u>Rate %</u>
l)Buildings and roads:	
Buildings	2.50%
Roads	12.25%

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment and depreciation (continued)

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 vehicles and other equipment:	
Lorries and land rovers	16.67%
Other vehicles	20.00%
Office machines, fittings and equipment	20.00%
Household equipment	20.00%
Office furniture	10.00%
Computer hardware	33.33%

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate.

An assets' 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 the operating profit(loss). On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

(f) 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 recognized 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 cashflows (cash-generating units)

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial Instruments

The company's financial assets which include cash and bank balances, trade and other receivables and tax recoverable fall into the following category:

Loans and Receivables: Financial assets with fixed or determinable payments that are not quoted in an active market. Suh assets are classified as current assets where maturities are within 12 months of reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Such assets are carried at arnotised cost using the effective interest rate method. Changes in the carrying amount are recognized in the profit or loss.

Purchase and sale of financial assets are recognized on the trade date i.e the date on which the company commits to purchase or sell the asset.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of impairment loss for assets carried at arnotised cost is calculated at the difference between the asset's carrying amount and the present values of expected future cashflows, discounted at the financial instrument;s effective interest rate. Impairment losses are taken into account for determining operating (loss).

Financial liabilities

The company's financial liabilities which include borrowings and trade and other payables fall into the following category:

Financial liabilities arnotised at cost: These are initially measured at fair value and subsequently measured at arnotised cost, using the effective rate method.

Borrowings are initially recognized at fair value, net of transaction costs incurred and are subsequently stated at arnotised cost. Any difference between the proceeds (net of transaction cost) and the redemption value is recognized as interest expense in the profit or loss under finance costs.

Fees associated with the acquisition of borrowing facilities are recognized as transaction costs of the borrowing to the extent that it is possible that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and arnotised over the period of the facility.

All financial liabilities 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 reporting date.

Financial liabilities are derecognized when, and only when, the company's obligations are discharged, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Inventories

Inventories are stated at the lower of cost and net realizable 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 realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

i) Cash and cash equivalents

For the purpose of the cashflow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of bank overdrafts.

Restricted cash balances are those balances that the company cannot use for working capital purposes as they have been placed as a lien to secure borrowings.

In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

j) Share capital

Ordinary shares are classified as capital.

k) Dividends

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

l) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in equity. In this case, the tax is also recognized in equity.

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 recognized only to the extent it is probable that future taxable profits will be available against which temporary timing differences can be utilized.

m) Employee entitlements

Employee entitlement to gratuity and long service awards are recognized 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 reporting date.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) 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 scheme are charged to the statement of comprehensive income 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 the NSSF Act. The company's contributions to the defined contribution scheme are charged to the statement of comprehensive income in the year to which they relate.

o) Biological assets

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

p) Government grants

Government grants related to assets, including non-monetary grants at fair value are presented in the statement of financial position by setting up the grant as deferred income.

The government grant is recognized as income on a systematic and rational basis over useful lives of the assets.

q) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of presentation of financial statements

At the reporting date current liabilities exceeded current assets by Shs. 1,243,173,104 (2013: Shs. 1,263,221,409). The shareholders fund was Shs. 378,315,064 on 30th June 2014. The company has accumulated losses amounting to shs. 2,974,014,741 (2013: 1,614,542,643). The company meets its day to day working capital requirements from revenue generated and through borrowings from its bankers and Kenya Sugar Board.

The Directors have prepared projected cash flows covering the periods after the reporting date. On the basis of expressions of support from the company's lenders, this cashflow information and other financial information, the directors consider it appropriate to prepare the financial statements on a going concern basis

2. Revenue

	2014 Shs	2013 Shs
Gross sales	2,997,242,441	672,732,234
Less: Value Added Tax	(399,473,350)	(89,330,070)
Sugar Development levy	(96,039,864)	(21,491,710)
Discounts	(239,434)	(169,435)
Net Sales	<u>2,501,489,793</u>	<u>561,741,019</u>
Gros sales comprising of the following:		
Revenue from sale of milled local sugar	2,896,338,443	647,919,865
Revenue from sale of Molasses	<u>100,903,998</u>	<u>24,812,369</u>
Total revenue	<u>2,997,242,441</u>	<u>672,732,234</u>

3. Cost of sales

Cost of cane	1,634,321,964	516,315,253
Factory costs	778,812,528	711,726,005
Decrease in closing inventory	(69,388,725)	(26,479,738)
Total cost of sales	<u>2,343,745,768</u>	<u>1,201,561,521</u>

4. Aggregate gain/(loss) arising from changes in fair value on biological assets (note 21e)

Sugar plantation	65,927,531	3,006,897
Livestock	(35,000)	105,000
	<u>65,892,531</u>	<u>3,111,897</u>

5. Other operating income

Miscellaneous income	6,945,068	37,886,719
Gain on disposal of Property, plant and equipment	4,181,550	465,270
Physical inventory adjustment	1,518,431	-
Government grant	11,362,316	11,362,316
Bad debts recovered	-	-
Rental income	<u>10,853,267</u>	<u>10,796,740</u>
Total other operating income	<u>34,860,632</u>	<u>60,511,045</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2014 Shs	2013 Shs
6. Administrative expenses		
Finance and administration department	146,527,718	97,068,124
Loss on disposal of property, plant and equipment	-	-
Human resource department	<u>224,361,349</u>	<u>159,297,631</u>
Total administrative expenses	<u>370,889,067</u>	<u>256,365,755</u>
7. Operating (loss)		
The following items have been charged/(credited) in arriving at operating (loss):		
Depreciation on property, plant and equipment (Note 20)	136,152,618	131,612,386
(Gain)/loss on disposal of property, plant and equipment	(4,181,550)	(465,270)
Auditors' remuneration	1,378,000	1,750,000
Directors' emoluments:- Salaries	5,265,133	10,259,400
-fees	-	-
Interest expense		98,966,658
Other receivables- impairment		1,498,062
Loan outgrowers- Impairment		340,075
Repairs and maintenance	436,337,398	385,008,744
Staff costs (note 8)	<u>489,466,526</u>	<u>456,716,433</u>
8. Staff costs		
Salaries and wages	472,293,393	440,334,673
Leave pay and allowance	3,281,657	1,953,134
Pension fund contribution:		
-Defined contribution scheme	11,836,144	12,320,155
-National Social Security Fund	<u>2,055,332</u>	<u>2,108,471</u>
	<u>489,466,526</u>	<u>456,716,433</u>
9. Finance costs		
Bank overdraft interest	-	8,538,644
Loan Interest	118,044,536	90,428,014
Mobilization charges	-	-
Total finance costs	<u>118,044,536</u>	<u>98,966,658</u>
10. Finance income		
Interest Income	<u>2,749,378</u>	<u>1,423,402</u>
This represents Interest Income from loans advanced by the company to farmers.		
11. Other charges and expenses		
Provision for bad and doubtful debts		
-Loans to outgrowers (societies)	-	340,075
-Other receivables	-	<u>1,498,062</u>
Total other charges and expenses	-	<u>1,838,137</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2014	2013
	Shs	Shs
12. Tax		
Current tax	-	-
Deferred tax charge (note17)	-	-
The tax on the company's (loss) before tax differs from the theoretical amount that would arise using basic rate as follows:		
(Loss) before tax	<u>(359,472,098)</u>	<u>(938,168,501)</u>
Tax calculated at a tax rate of 30% (2013: 30%)		<u>(281,450,550)</u>
Tax effect of:		
-Deferred tax not recognized		(165,012,360)
-Expenses not deductible for tax purposes		<u>445,800,296</u>
Tax charge		:
13. (Loss) per share		
(Loss) per share is calculated by dividing the (loss) attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year		
(loss) attributable to equity holders	<u>(359,472,098)</u>	<u>(938,168,501)</u>
Weighted average number of shares	<u>10,579,581</u>	<u>10,579,581</u>
(Loss) per share	<u>(33.97)</u>	<u>(88.68)</u>
14. Share capital		
Authorised, issued and fully paid		
10,579,581 (2013: 10,579,581) ordinary shares of Shs. 20 each	<u>211,591,620</u>	<u>211,591,620</u>
15. Revaluation reserve		
Property, plant and equipment	<u>3,269,329,795</u>	<u>3,269,329,795</u>
Property, plant and equipment		
-Freehold land	1,400,000,000	1,400,000,000
-Land and buildings	1,079,671,616	1,079,671,616
-Plant equipment and machinery	<u>784,748,017</u>	<u>784,748,017</u>
	<u>3,264,419,632</u>	<u>3,264,419,632</u>
The movements in reserves were as follows:		
Freehold land		
At start of year	1,400,000,000	447,061,152
Increase in fair value	-	<u>952,938,848</u>
At end of year	<u>1,400,000,000</u>	<u>1,400,000,000</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 borrowings (continued)

b) Kenya Sugar Board loan

-Debentures over the company's assets

	2014	2013
	%	%
Kenya Sugar Board loan	3-6	3-6
Bank overdraft	<u>15</u>	<u>14.5</u>

In the opinion of the directors, the carrying amounts of short-term borrowings approximate to their fair value. Fair values are based on discounted cashflows using a discount rate based upon the borrowing rate that the directors expect would be available to the company at the reporting date.

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

The carrying amounts of the company's borrowings are denominated in Kenya Shillings.

	2014	2013
	Shs	Shs
Maturity of non-current borrowings		
Between 1 and 2 years	2,478,602,784	2,150,377,670
Over 2 years	<u>53,167,168</u>	<u>47,446,776</u>
	<u>2,531,769,952</u>	<u>2,197,824,446</u>

During the year, the company defaulted on loan agreements relating to Kenya Sugar Board by not honouring the repayment of principal and interest amounting to Shs. 655,849,808.

Borrowings from this institution amounted to 2,471,751,188 (2013: Shs. 2,099,818,632) as at the year end. Interest payable of Shs. 412,227,556 (2013: 323,383,475) remained unpaid as at 30th June 2013. The management expects to meet all contractual obligations in the future.

During the year, the new movement in loans from Kenya Sugar Board was as follows :

	2014	2013
	Shs	Shs
At start of the year	2,099,818,631	1,510,768,878
Proceeds during the year	314,965,905	535,151,122
Interest charged	94,041,222	69,053,391
Repayment during the year	<u>(37,074,570)</u>	<u>(15,154,760)</u>
At end of year	<u>2,471,751,188</u>	<u>2,099,818,631</u>

There were no undrawn facilities as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Deferred tax

Deferre tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2013: 30%). The movement of the deferred tax account is as follows:

	2014 Shs	2013 Shs
As at year start	-	-
Statement of comprehensive income (credit) (note 1)	-	-
As at year end	-	-

Deferred tax assets and liabilities and deferred tax charge in the statement of comprehensive income are attributable to the following items:

	At start of year of comprehensive Income Shs	(credit)/charge to statement Shs	At end of year Shs
Deferred tax liabilities			
Property, plant and equipment			
-Historical cost	(72,586,175)	59,006,832	(13,579,343)
-Revaluation surplus	(799,036,985)	27,820,729	(771,216,256)
-Biological assets	(65,739,136)	19,360,004	(46,379,132)
	(937,362,296)	106,187,565	(831,174,731)
Deferred tax assets			
Other temporary differences	100,263,605	287,952	100,551,557
Tax loss carried forward	836,436,078	(106,475,517)	729,960,561
	936,699,683	106,187,565	830,512,118
Net deferred tax liability	-	-	-

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

No provision has been made for the above deferrd tax assets, which includes an asset arising from tax losses amounting to Kshs.3,677,331,669 (2013: Kshs. 3,338,161,459) because it is not expected that the company will have taxable profits in the foreseeable future against which the the temporary differences and tax losses can be utilized. The Kenyan Income Tax Act requires tax losses to be utilized within four years from the date which they were incurred and for any tax losses incurred before 1st January 2010 are deemed to have been incurred on that date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Other accrued liabilities:

At 1 st July 2012	Gratuity	Provision for long-term service dues	Provision for outstanding leave days	Total	
	Kshs	Shs	Shs	Shs	Shs
At start of year	12,484,313	265,108,591		36,596,497	314,189,401
Statement of comprehensive Income charge	993,030	23,943,165		-	24,936,195
Paid/utilized during theyear	-	-		(4,913,580)	(4,913,580)
At year end	<u>13,477,343</u>	<u>289,051,756</u>		<u>31,682,917</u>	<u>334,212,016</u>
At July 2013					
At start of year	13,477,343	289,051,756		31,682,917	334,212,016
Statement of comprehensive Income charge		41,098,661			41,098,661
Paid/utilized during theyear	(4,427,655)	(63,345,065)		(2,129,327)	(69,902,047)
At year end	<u>9,049,688</u>	<u>266,805,352</u>		<u>29,553,590</u>	<u>305,408,630</u>

19. Government grants

	2014 Shs	2013 Shs
Road Machinery grant		
At year start	35,778,104	47,140,420
Amount recognized	<u>11,362,316</u>	<u>(11,362,316)</u>
At end of year	<u>24,415,788</u>	<u>35,778,104</u>
Irrigation grant		
At year start	10,000,000	-
Amount recognized	<u>-</u>	<u>-</u>
At end of year	<u>10,000,000</u>	<u>-</u>
Total grants	<u>34,415,788</u>	<u>35,778,104</u>
Current	11,362,316	11,362,316
Non-current	<u>23,053,472</u>	<u>24,415,788</u>
	<u>34,415,788</u>	<u>35,778,104</u>

The grant relates to advance of Kshs 113.2 million by Government of Kenya to the company which was given for the purposes of procurement of tractors and Kshs .10 Million grant for irrigation. There are no conditions attached to the grant. The grant is recognized in profit or loss over useful life of assets procured with the grant.

20. Property, plant and equipment

Year ended 30 June 2014	Freehold land KShs	Buildings and roads KShs	Plant, equipment and machinery KShs	Motor vehicles and other equipment KShs	Capital work-in-progress KShs	Total KShs
COST OR VALUATION						
At year start	1,400,000,000	1,555,640,000	1,590,753,225	111,110,716	-	4,657,503,941
Additions	-	-	17,230,865	3,015,729	-	20,246,594
Disposals	-	-	-	-	-	-
At 30 June 2014	<u>1,400,000,000</u>	<u>1,555,640,000</u>	<u>1,607,984,090</u>	<u>114,126,445</u>	-	<u>4,677,750,535</u>
COMPRISING						
Cost	-	3,551,424	469,006,833	104,543,696	-	577,101,953
Valuation	<u>1,400,000,000</u>	<u>1,552,088,576</u>	<u>1,138,977,257</u>	<u>9,582,749</u>	-	<u>4,100,648,582</u>
	<u>1,400,000,000</u>	<u>1,555,640,000</u>	<u>1,607,984,090</u>	<u>114,126,445</u>	-	<u>4,677,750,535</u>
DEPRECIATION						
At 1 July 2013	-	9,722,750	25,012,143	77,310,700	-	112,045,593
On disposal	-	-	-	-	-	-
Charge for the year	-	<u>38,891,000</u>	<u>90,766,823</u>	<u>7,994,809</u>	-	<u>137,652,632</u>
At 30 June 2012	-	<u>48,613,750</u>	<u>115,778,966</u>	<u>85,305,509</u>	-	<u>249,698,225</u>
NET CARRYING AMOUNT						
At 30 June 2014	<u>1,400,000,000</u>	<u>1,507,026,250</u>	<u>1,492,205,124</u>	<u>28,820,936</u>	-	<u>4,428,052,310</u>

Property, plant and equipment were professionally valued in 2013 by Tysons Limited, independent valuers. Valuations were made on the open market basis for freehold land and buildings and on replacement cost basis for plant, equipment and machinery. The carrying amounts of the assets were adjusted to the revalued amounts and the resultant surplus net of deferred tax was credited to the asset revaluation reserve in equity. In the opinion of the directors, there is no impairment of all classes of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. Property, plant and equipment

Year ended 30 June 2013	Freehold land KShs	Buildings and roads KShs	Plant, equipment and machinery KShs	Motor vehicles and other equipment KShs	Capital work- in-progress KShs	Total KShs
At year start	450,000,000	946,639,443	1,638,838,027	132,871,067	10,738,477	3,179,087,014
Additions	-	-	112,752,316	651,900	-	113,404,216
On Impairment	-	-	(1,908,961)	(5,080,000)	-	(6,988,961)
Transfer upon competition	-	486,891	10,251,586	-	(10,738,477)	-
On revaluation	950,000,000	608,513,666	(168,559,743)	(17,332,251)	-	1,372,621,672
Disposals	-	-	620,000	-	-	(620,000)
At 30 June 2013	<u>1,400,000,000</u>	<u>1,555,640,000</u>	<u>1,590,753,225</u>	<u>111,110,716</u>	<u>-</u>	<u>4,657,503,941</u>
COMPRISING						
Cost	-	3,551,424	451,775,968	101,527,967	-	556,855,359
Valuation	<u>1,400,000,000</u>	<u>1,552,088,576</u>	<u>1,138,977,257</u>	<u>9,582,749</u>	<u>-</u>	<u>4,100,648,582</u>
	<u>1,400,000,000</u>	<u>1,555,640,000</u>	<u>1,590,753,225</u>	<u>111,110,716</u>	<u>-</u>	<u>4,657,503,941</u>
DEPRECIATION						
At 1 July 2012	-	127,218,692	456,554,845	124,349,089	-	708,122,626
On disposal	-	-	364,070)	-	-	(364,070)
On impairment	-	-	(1,908,961)	(5,080,000)	-	(6,988,961)
Reversal of accumulated Depreciation on revaluation	-	(144,785,178)	(527,565,440)	(47,985,770)	-	-
Charge for the year	-	<u>27,289,236</u>	<u>98,295,769</u>	<u>6,027,381</u>	-	<u>131,612,386</u>
At 30 June 2013	<u>-</u>	<u>9,722,750</u>	<u>25,012,143</u>	<u>77,310,700</u>	<u>-</u>	<u>112,045,593</u>
NET CARRYING AMOUNT						
At 30 June 2013	<u>1,400,000,000</u>	<u>1,545,917,250</u>	<u>1,565,741,082</u>	<u>33,800,016</u>	<u>-</u>	<u>4,545,458,348</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Biological assets

	2014	2013
	KShs.	KShs.
a) Bearer assets:		
Plantations - sugar cane	146,461,792	218,505,454
Consumable assets		
- livestock	<u>660,000</u>	<u>625,000</u>
Total biological assets	<u>147,121,792</u>	<u>234,070,412</u>

b) Details of biological assets:

i) Milk cattle

Held for meat and milk purposes

Quantities at year-end in number of animals

- Mature	10	9
- Immature	5	11
Total	<u>15</u>	<u>20</u>

ii) Sugarcane

Held for sugarcane harvesting

Quantities at year-end in number of hectares
under sugarcane plantation:

- Plant	251	240
- Ratoon	<u>1320</u>	<u>1306</u>

1571 1,547

c) Determining fair value of agricultural produce:

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

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

- i) The market price of cane is KShs. 3,000 per tonne (2013: KShs. 3,500 per tonne).
- 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 reporting date.
- iii) Climatic conditions will remain the same.
- iv) The fair value per tonne is spread over the crop life from age of one month based on the proportion of cane development costs.

e) Reconciliation of carrying amount of biological assets:

	2014	2013
	KShs	KShs
i) Sugar cane plantations		
At the start of the year	218,505,454	221,512,351
Aggregate (Loss) due to changes in fair value (note 4)	<u>(72,043,662)</u>	<u>(3,006,897)</u>
At the end of the year	<u>146,461,792</u>	<u>218,505,454</u>
	2014	2013

	KShs	KShs
NOTES TO THE FINANCIAL STATEMENTS (continued)		
Apportionment		
Current portion	100,269,194	207,127,981
Non-current portion	<u>53,667,912</u>	<u>11,377,473</u>
	<u>153,937,106</u>	<u>218,505,454</u>
21. BIOLOGICAL ASSETS (Continued)		
i) Livestock		
At start of year	625,000	730,000
Aggregate (loss)/ gain due to changes in fair value (note 4)	<u>35,000</u>	<u>(105,000)</u>
At end of year	<u>660,000</u>	<u>625,000</u>
Total value of biological assets		
Current portion	100,929,194	207,127,981
Non-current portion	<u>53,667,912</u>	<u>12,002,473</u>
	<u>154,597,106</u>	<u>219,130,454</u>
22. Loans to Outgrowers		
Co-operative societies	367,123,870	368,968,312
Large and medium scale farmers	53,412,637	49,595,718
Transport and equipment loans	<u>833,736</u>	<u>843,365</u>
	421,370,243	419,407,395
Less: impairment		
Co-operative societies	(365,958,108)	(365,958,108)
Large and medium scale farmers	(41,236,110)	(41,236,110)
Transport and equipment loans	<u>(833,736)</u>	<u>(833,736)</u>
	<u>(408,027,954)</u>	<u>(408,027,954)</u>
	<u>13,342,289</u>	<u>11,379,441</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. Loans to outgrowers (continued)

The company's credit risk arises primarily from loans to co-operative societies, outgrowers and large and small scale farmers. The directors have made a provision for the portion of the outgrowers loans whose recovery is in doubt.

23. Trade and other receivables

	2014	2013
	KShs	KShs
Trade receivables	41,706,652	27,758,695
Less : Provision for impairment	<u>22,595,936</u>	<u>(22,595,936)</u>
Net trade receivables	<u>19,110,716</u>	<u>5,162,759</u>
Other receivables	61,125,178	75,093,506
Less : Provision for impairment	<u>(43,798,468)</u>	<u>(43,699,506)</u>
Net other receivables	<u>17,326,710</u>	<u>31,394,000</u>
Deposits and prepayment	<u>99,204,114</u>	<u>48,402,606</u>
Total trade and other receivables	<u>135,641,540</u>	<u>116,946,680</u>

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

The company's credit risk arises from trade and other receivables. The directors have made a provision for the portion of the receivables 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.

24. Inventories

	2014	2013
	Shs	Shs
Milled sugar	98,279,729	28,390,469
Factory and field stores	319,347,290	353,252,219
Milled sugar-in-process	13,230,225	23,841,697
Unmilled cane	-	2,100,000
Filling station	833,187	833,188
Molasses	1,422,812	1,146,315
Molasses in process	3,779,194	4,556,226
Stationery	2,254,595	1,752,241
Medicines	1,687,283	1,007,662
Goods-in-Transit	<u>76,358,593</u>	<u>419,129</u>
	517,192,908	417,299,146
Less; Impairment for obsolete and slow moving inventories	<u>82,862,847</u>	<u>82,862,847</u>
	<u>434,330,061</u>	<u>334,436,299</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Cash and Cash equivalents

	2014 Shs	2013 Shs
Cash at bank and In hand	53,825,743	27,958,891
Short-term bank deposits	-	-
	<u>53,825,743</u>	<u>27,985,891</u>

The weighted average amounts of the company's effective interest rate on short-term bank deposits at year end was 8% (2013: 6.8%)

For the purpose of the cash flow statement, the year-end cash and cash equivalents are as follows:

	2014 Shs	2013 Shs
Cash at bank and in hand	53,825,743	27,958,891
Short-term bank deposits	-	-
Bank overdrafts (note 16)	<u>(28,264,857)</u>	<u>(17,142,018)</u>
	<u>25,560,886</u>	<u>10,816,873</u>

The carrying amounts of the company's cash and cash equivalents are all denominated in Kenya Shillings.

26. Trade and other payables

	2014 Shs	2013 Shs
Trade payables	251,364,807	354,185,855
Cane payables	415,629,564	369,237,711
Value Added Tax	426,835,682	433,486,134
Kenya Sugar Board Levy	346,675,319	279,032,104
Payroll liabilities	208,965,050	330,927,833
Prepaid Sugar Sales	37,886,305	49,846,339
Other payables and accruals	<u>183,392,555</u>	<u>44,355,447</u>
	<u>1,870,749,282</u>	<u>1,861,071,423</u>

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

27. Related party transactions and balances

Kenya Sugar Board loans

The Company is related to its lender, Kenya Sugar Board by virtue of common ownership by the ultimate parent, the Government of Kenya. Transactions with Kenya Sugar Board are detailed in note 16

28. Cash (used in) operations

	2014	2013
	Shs	Shs
Reconciliation of loss before tax to cash (used in) operations (loss before tax)	(359,472,098)	(938,168,501)
Adjustment for:		
Depreciation on property, plant and equipment (note 20)	137,652,632	131,612,386
(Gain)/loss on disposal of property, plant and equipment	(4,181,550)	(465,270)
Net fair value loss on biological assets (note 4)	(65,892,531)	3,111,897
Interest (income)	(2,749,378)	(1,423,402)
Interest expense	118,044,536	98,966,658
Amortisation of government grant	(11,362,316)	(11,362,316)
Decrease provision for other accrued liabilities (note 18)	(28,803,386)	20,022,615
 Changes in working capital		
-Inventories	(99,893,762)	34,618,380
-Trade and other receivables	(50,682,175)	31,987,315
-Loan to outgrowers	(1,962,848)	2,329,064
-Restricted cash and cash equivalents	-	15,266,059
-Trade and other payables	<u>9,677,859</u>	<u>309,947,245</u>
-Cash (used in) operations	(359,625,017)	(303,557,870)

29. Contingent liabilities

The company is a defendant in various litigations and claims amounting to Kshs. 90 million, which arose in the ordinary course of business. No provision has been made in the financial statements, as the directors believe, based on information currently available, that the ultimate resolution of these legal proceedings is not likely to have a material effect on the operations of the company.

30. Commitments

	2014	2013
	Shs	Shs
Capital commitments		
Capital expenditure contracted for at the reporting date is as follows:		
Factory and Agriculture plant and machinery	-	33,708,839

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 that will develop risk management policies to be used in identifying, evaluating and hedging of financial risks in close co-operation with various departmental heads.

NOTES TO THE FINANCIAL STATEMENTS (continued)

a) Market risk

-Foreign exchange risk

The company's financial transactions are denominated in Kenya Shillings, and are therefore not exposed to foreign currency risks.

-Interest rate risk

The company is exposed to interest rate risk as it borrows funds 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, the company negotiates for an extended repayment schedule that does not expose the company to penalties.

At 30th June 2014, if the interest rates at that date had been 10% higher with all other variables held constant, post-tax (loss) for the year would have been Shs.11,804,453 (2013: Shs. 6,563,733) arising mainly as a result of higher interest expense on variable borrowings.

-Price risk

The Company realized depressed sugar prices in the year under review due to illegal sugar imports. This affected the revenue generation as sugar prices were prevailing below the cost of production.

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 obligations as they fall due.

The company manages liquidity risk by maintaining banking facilities and Kenya Sugar Board loans, and continuously monitoring, forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

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.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The company is financed through borrowings from Kenya Sugar Board and Kenya Commercial Bank Limited.

33. Country of Incorporation

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

34. Presentation currency

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