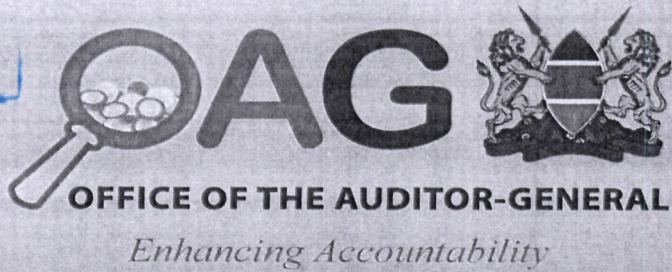


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ON

CHEMELIL SUGAR COMPANY LIMITED

FOR THE YEAR ENDED
30 JUNE, 2021





CHEMELIL SUGAR COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2021**

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

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KEY ENTITY INFORMATION

Background Information

Chemelil Sugar Company was established in 1965 as a private limited Company and later became a Parastatal in 1974. It is currently a Parastatal under the Ministry of Agriculture, Livestock, Fisheries and Cooperatives - State Department of Crop Development. The Company is domiciled in Kenya and is located along Awasi - Nandi Hills Road in Muhoroni sub-County of Kisumu County, approximately 50 kilometres from Kisumu City.

Principal Activities

The principal activity of the Company is to manufacture sugar and co-products from sugarcane and to establish and manage sugarcane plantations. Its vision is to be the Company of choice in the production and marketing of sugar as well as in sugarcane development in the region. The Company's core objectives include cane development, factory capacity utilization, marketing and distribution, environmental management and corporate citizenship.

Directors

The Directors who served the entity during the year/period were as follows:

- | | | |
|--|-----------------------------------|-------------------------|
| 1. Mr. Zedekiah Kiprop Bundotich | - Chairman | - Exited on 22 Jul 2020 |
| 2. Mr. Gabriel Nyangweso | - Ag. Managing Director | - Appointed in May 2017 |
| 3. Mr. David Osiany | - Independent Director | - Exited on 22 Jul 2020 |
| 4. Ms. Christine Atieno | - Independent Director | - Exited on 22 Jul 2020 |
| 5. Mr. George Oballa | - Independent Director | - Exited on 22 Jul 2020 |
| 6. Mr. Lilian Marjorie Wasonga Nangulu | - Independent Director | - Exited on 22 Jul 2020 |
| 7. Principal Secretary Ministry of Agriculture | - Alternate, Ms. Jackline Kiio | - Exited on 22 Jul 2020 |
| 8. Principal Secretary, National Treasury | - Alternate, Mr. Kennedy Odhiambo | - Exited on 22 Jul 2020 |
| 9. Development Bank of Kenya | - Alternate, Mr. Jacob Mananda | - Exited on 22 Jul 2020 |
| 10. Agricultural Development Corporation | - Alternate, Mr. Richard Aiyabei | - Exited on 22 Jul 2020 |
| 11. VIVO Energy(K) LTD | - Alternate, Ms. Naomi Assumani | - Exited on 22 Jul 2020 |

Chief Officers

- | | |
|------------------------------|--------------------------------|
| 1. Mr. Gabriel Nyangweso | - Ag. Managing Director |
| 2. Mr. Emmanuel Obetch Ngala | - Head of Finance |
| 3. Mr. Jorim Osewe | - Head of Agriculture (Ag) |
| 4. Mr. Joseph Kiilu | - Head of Factory (Ag) |
| 5. Mr. Moffat Omondi | - Head of Human Resources (Ag) |
| 6. Ms. Lindah Kiplagat | - Marketing Manager (Ag) |
| 7. Mr. Jackline Kotonya | - Internal Audit Manager (Ag) |

Corporate Secretary

Image Registrars
P.O. Box 9287- 00100
Nairobi, Kenya.

Corporate Headquarters

P.O. Box 177-40107
Awasi-Nandi Hills Road
Muhoroni, Kenya

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KEY ENTITY INFORMATION (Continued)

Corporate Contacts

Telephone : (254) 020-2031883/4/5

E-mail: chemelil@swiftkisumu.com/chemelil.mdsoffice@gmail.com

Website: www.chemsugar.go.ke

Corporate Bankers

1. Kenya Commercial Bank Limited
P.O. BOX 17-40100
Kisumu, Kenya
2. Co-operative Bank of Kenya Limited
P.O BOX 301511-40100
Kisumu, Kenya

Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya



Principal Legal Advisers

1. Migos Ogamba & Company
P.O. Box 17- 40100
Nairobi, Kenya.
2. Otieno Ragot & Company
P. O. Box 3051 - 40100
Kisumu, Kenya.

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THE BOARD OF DIRECTORS





DIRECTOR'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
<p>1. Mr. Zedekiah Kiprop Bundotich</p> <p>Chairman</p>	<p>Mr. Bundotich was appointed as Chairman of the Board of Directors with effect from 20th September, 2018. He is a renowned businessman with a wide knowledge in transport and dairy industry spanning over 30 years.</p> <p>Holds Bsc of science in Management and Marketing (Royal Holloway University of London), Diploma in Business Management.</p> <p>He is the group Chairman and founder of Buzeki Group of Companies. Has achieved a lot in the business field.</p>
 <p>2. Mr. Gabriel Nyangweso</p> <p>Ag. Managing Director</p>	<p>Mr. Nyangweso holds a Masters Degree (MBA) in Strategic Management from Egerton University, BSc in Agriculture from University of Nairobi and International Certificate in sugarcane Agronomy from Mauritius. He has served Sony Sugar as Out growers Manager, Nucleus Estate Manager, Transport Manager and Head of Agriculture - a position he held until secondment to Chemelil Sugar Company as Managing Director in acting capacity from 5th May 2017.</p>
<p>3. Mr. David Oslany</p> <p>Independent Director</p>	<p>Mr. Oslany is a public policy professional with over 10 years experience in policy advocacy and advice, and strategic public management with special bias to communication, HR Management & Organizational Development. He holds MSc. Public Policy from the University of Bristol, United Kingdom and Bachelor's Degree in Arts (Communication & Sociology) from the University of Nairobi. He was appointed Director with effect from 20th September, 2018.</p>
<p>4. Ms. Christine Atieno Otieno</p> <p>Independent Director</p>	<p>Ms. Atieno was appointed Board member of the Company with effect from 20th September, 2018. She is a Lawyer with vast experience in consultancy services and research. Currently a partner in charge of Finance and Administration at Maangi and Otieno Advocates. A member of various professional bodies e.g. FLSK, and CRADLE. Has previously consulted for APHIA-USAID, Oxfam GB, and Committee for implementation of the constitution of Kenya (CIC), National Legal Aid Awareness Program (NALEAP).</p> <p>Has Bachelor's degree in Law from University of Nairobi, Diploma in Law from Kenya School of Law.</p>
<p>5. Mr. Jacob Mananda</p> <p>Alternate Director</p>	<p>Mr. Mananda represents Development Bank of Kenya. He has Masters in Business Administration (Finance).</p>
 <p>6. Mr. Kennedy Odhiambo</p> <p>Alternate Director</p>	<p>Mr. Odhiambo represents the National Treasury as per the State Corporation Act. Alternate to Principal Secretary, The National Treasury.</p>

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<p>7. Mr. Richard Aiyabei</p>  <p>Alternate Director (ADC)</p>	<p>Mr. Richard Aiyabei aged 51 years is a holder of MSc. Degree in Agronomy from University of Eldoret, E Degree in Agriculture from Moi University and Diploma in Farm Management from Egerton University. He is currently the Managing Director of the Agricultural Development Corporation a position he rose to progressively since joining the corporation in 1990 as an Assistant Farm Manager. His Directorship roles includes Director Kenya Seed Company and Chairman Agro Chemical and Food Company Ltd. Mr Richard Aiyabei is a member of World ploughing Board, Kenya Ploughing Organisation (National Chairman), ASK Council Member Eldoret Branch and ASK Member of Executive Committee KPO among others. He represents Agricultural Development Corporation.</p>
<p>8. Ms. Jacqueline Kilo</p> <p>Alternate Director, Ministry of Agriculture, Livestock, Fisheries and Cooperatives</p>	<p>Represents Ministry of Agriculture, Livestock and Fisheries. She joined the Board on 11th October 2018</p>
<p>9. Mr. George Obala</p> <p>Independent Director</p>	<p>Mr. Oballa, aged 52 years is a holder of a Bachelor of Commerce in Marketing Degree (1992) from University of Nairobi and Advanced Diploma in Marketing (2003) from the Institute of Finance Management. Currently he is a Director, Lead Consultant at Seydou Resources Ltd and Regional Director for East Africa Forefinance/Scopelnaight.</p>
<p>10. Ms. Lillian Marjorie Wasonga Nangulu</p> <p>Independent Director</p>	<p>Ms.Nangulu holds a Master's degree in Administration, Tourism-Punjabi University India, Advanced diploma in Computer Applications, Computer Center-Chandigarh India and Bachelor of Commerce-Punjabi University India. She has worked for Citibank N.A as a client experience Head (Kenya and Uganda).</p>
<p>11. Ms. Miriam Ndirangu</p> <p>Representative, Image Registrars, Company Secretaries</p>	<p>Ms. Miriam Ndirangu represents Image Registrars who are appointed as Company Secretaries by the Board of Directors. She is a member of ICPSK.</p>

MANAGEMENT TEAM

MANAGER'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
 <p>Mr. Gabriel Nyangweso, MBA (Strategic Management)</p>	<p>Managing Director (Ag)</p>
 <p>Mr. Elijah Chepyegon Chelagat BSc (Mechanical Engineering)</p>	<p>Head of Factory (Ag)</p>
 <p>Mr. Emmanuel Obetch Ngala EMBA, BCom (Accounting), ACCA, MKIM</p>	<p>Head of Finance</p>
<p>Mr. Jorim Osewe Bsc.(Agricultural Engineering)</p>	<p>Head of Agriculture (Ag)</p>
 <p>Ms. Jacqueline Kotonya BSc (Chemistry), AWSE, EIK</p>	<p>Internal Audit Manager</p>

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 <p>Mr. Moffat Omond Bsc (Chemistry), MKIM</p>	<p>Head of Human Resource (Ag)</p>
 <p>Mr. Japheth Ojwang BBM (Purchasing & Supplies), Dip BA, KISM, CIPS</p>	<p>Supply Chain Manager (Ag)</p>
 <p>Ms. Lindah J. Kiplagat MBA (Strategic Management), BBA (Marketing), MSK</p>	<p>Marketing Manager</p>

Chemelil Sugar Company Limited

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CHAIRMAN'S STATEMENT

OVERVIEW

The cane supply in Nyando sugar belt during the 2020/2021 financial year was much better compared to a number of preceding year(s) owing to onset of the long rains of 2019 and 2020, despite the Sugar Industry continued general sugarcane deficit. Sugar selling price remained depressed by cheaper imports curtailing the Company's financial performance. The other challenge was frequent breakdowns of key machinery in the factory due to ageing plant which has not undergone major maintenance since the year 2013. This led to inefficient factory operations and low sugar recovery and affected cashflow and profitability.

OPERATIONS

The volume of cane milled increased 3.4 times to 411,112 tonnes up from 120,632 processed in the previous year. This was the highest milled in 7 years mainly because cane supply improved and, unlike the preceding years, the factory ran continuously for all the 12 months of the financial year. The average conversion ratio remained relatively better at 14.75 tonnes of sugarcane to one tonne of sugar compared to 15.94 achieved the previous year. The Company sold a total of 28,031 tonnes of sugar compared to 7,567 tonnes sold in 2019/2020. Accordingly, the gross turnover grew to Kshs. 2,568 million up from Kshs. 621 million achieved in the previous year mainly because of higher production and sales volumes.

RESULTS

The Company posted a reduced loss of Kshs 549 million compared to the restated loss of Kshs 694 million in the previous year.

TAX CONTRIBUTION

The Company continued to be one of the large tax payers to the government. During the financial year, the Company accrued/paid Kshs. 358 million in VAT compared to Kshs. 76 million the year before.

CORPORATE SOCIAL RESPONSIBILITY

Despite constrained cash flows the Company continued to play its role as a responsible corporate citizen. The key focus areas during the year under review were education, health, sanitation and environment. Through its own sponsored Chemelil Sugar primary and secondary schools and by supporting a number of other public schools within Chemelil zone, the Company continued to empower the population in the community. The Company also operates a health facility which supports the community's health, through its MCH and general healthcare services.

DIVIDENDS

The company remains committed to its primary objective of maximization of Shareholders' fund and in giving a return on investment through payment of dividends. However, due to the low performance for the year, loss incurred and the aforementioned financial constraints, the Company was not in a position to pay dividends. Measures are being put in place and this situation is likely to change in the coming years and dividends shall be paid accordingly.

PERFORMANCE CONTRACT

The company entered into a negotiated performance contract with the Government of Kenya for the year 2021/2022 by setting targets in line with the Strategic plan 2017/2018-2021/2022 and the Approved Budget for 2021/2022. The Company did not achieve its profitability target for 2020/2021 given the conditions it operated in but there is strong and positive indication of improved performance towards achieving and surpassing our boundaries of success.

REVIEW OF CURRENT AND FUTURE BUSINESS OUTLOOK

Access to adequate quality raw material and stability of market sugar price remain the key determinants of the Company's operational performance. The company continues to engage and/or contract farmers for cane supply. Improvement in cane availability is being pursued through planting of high sucrose and early maturing cane within the nucleus estate and improving extension services to farmers. Continued support to farmers with farm inputs and implements is on-going. All these efforts are aimed at improving the

Chemelil Sugar Company Limited

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quantity and quality of sugarcane for milling. The cane testing unit which will peg cane payment on sucrose content thus ensuring the company gets value for money is almost complete.

The Company's 5-year strategic plan (2017/18- 2021/2022) had targeted to increase cane yield from 48 TCH to 75 TCH and to mill 871,000 tons annually by the year 2021/2022. Though these targets were not achieved in the year under review, it is envisaged that the Government commitment to privatization of the five public sugar mills will inject new funds to revitalise factory efficiency and mitigate the inadequate cane availability and supply to the factory. The process is expected to enhance competitiveness, profitability and sustainability of the Company. The company is also keen on cost controls and improved corporate communications policy to ensure it has support from all stakeholders.

The government has appointed a new taskforce to review and advise on the design, development and implementation of the sugar industry price stabilization framework which is looking into ways of stabilizing the incomes of different players in the sugar value chain going forward. The implementation of recommendations by this task force is expected to sanitize the regulatory regime, control sugar importation and create a level playing ground for all in the industry.

The COMESA safeguard measures were also extended to February 2023. The Company's improved performance levels should enable it compete when that time lapses. The Company will continue to enhance factory efficiency and increase the branded sugar production. Cost management 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 optimum requirements and irrigation project is being enhanced to increase cane yield. The cane development program will continue into the next year where a further 3,000 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. I also wish to thank our suppliers, the Commodity Fund and the National Government for the loans 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 to Company goals even during the difficult times experienced for the better part of the year. The Board is optimistic that we shall all improve our performance to meet our targets for future Company sustainability.



CHAIRMAN

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REPORT OF THE CHIEF EXECUTIVE OFFICER

It is my pleasure once again to report on the performance of Chemelil Sugar Company Limited for the year ended 30th June 2021

OVERVIEW

In the year under review, the Company experienced a number of challenges in its operations which included: Factory breakdowns due to aging plant which adversely affected throughput and conversion ratios; poaching of cane from the zone by other millers resulting in cane shortage; low agricultural machinery availability; unrestricted importation of sugar which resulted in glut in the market hence depressed sugar prices and low cane yields. These factors affected the Company's revenue generation and thus cash inflows.

PERFORMANCE REVIEW

I. Financial Performance

The net turnover for FY 2021 increased by 306% to Kshs.2,214 million up from Kshs.545 million in FY 2020. This comprised Kshs.2,140 million (2020-Kshs.521million) from sugar and Kshs.74 million (2020-Kshs.14 million) from molasses. The higher turnover was attributed to higher sales volumes and better selling prices for both sugar and molasses compared to the previous year.

A reduced gross loss of Kshs.3 million (2020-Kshs.384million) was achieved in the year under review. This was because the increase in revenue influenced by both the higher volume of sales and higher product prices exceeded the increase in cost of sales which was driven by the higher volume of cane milled and the increased price per ton but moderated by the improved conversion ratio.

Marketing and distribution costs increased by 16% mainly due to the higher quantity of sugar sold compared to FY 2020. Administration cost increased by 14% as a result of increased activity during the year under review.

The overall performance for the year was an operating loss of Shs. 549 million arising from factory inefficiencies. This was much lower than the loss of Kshs.694 million recorded in the previous year. The improvement was because milling operations was sustained throughout the 12 months of the financial year as compared to only 4 months in FY 2020.

II. Agricultural Operations

Cane delivered to factory during the year totalling 411,654 was 240% higher compared to 121,033 delivered the previous year. The average pol (sucrose in cane) was 11.88% (2020-10.88%). The increase in quantity is attributed to the full year of continuous operations compared to only 4 months in the previous year. The Nucleus Estate contributed 41,600 (15%) while 370,054 was sourced from farmers within Chemelil zone. The price of cane per ton increased to Kshs 4,040 compared to Kshs. 3,750 in FY 2020 representing 8% increase. Cane pricing committee was involved in setting minimum cane price based on prevailing ex-factory price of sugar.

Weather conditions during the year was generally favourable for cane production even though the cane zone received a lower rainfall mean of 1681.8mm (2020-1907.9mm) compared to the long term mean of 1,853.1mm. Cane yields improved to an average of 49.6 TCH compared to 47.1 the previous year despite continued cane pouching activities by neighbouring millers in unfair competition during the year.

Cane development program was slightly below target due to cash flow constraints. A total of 500 ha was ploughed, 465 ha harrowed and 400 ha furrowed against a target of 500ha. Area planted was 500 ha against a target of 500 ha. Fertilizer supply for planting and top dressing was 1,000 bags.

During the year, a lot of effort was expended to engage farmers and other industry stakeholders to appraise them on the Company and industry challenges and initiatives.

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III. Factory Operations

The factory milled a total of 411,211 tons of cane in the year under review compared to 120,632 tons milled in FY 2020. Of these 350,412 tons of cane representing 85% came from farmers while 60,799 tons representing 15% was received from the Nucleus Estate. In the previous year, 102,067 tons of cane milled came from farmers while 18,565 tons came from the Nucleus Estate. The amount paid to farmers for cane supply was Kshs. 1,334 million (2020-Kshs 529 million).

The cane supplied was milled at a conversion ratio of 14.75 (2020-15.94) tonnes of cane to 1 ton of sugar to produce 27,886 tons of sugar compared to 7,567 tons produced in FY 2020, this production represents 268% increase compared to the previous year. A better performance was experienced in the first and second quarters but factory breakdowns became more frequent in the third and fourth quarters leading to loss of production time and reduced sugar recovery.

A total of 2,206 tonnes of sugar representing 8% of sugar produced was branded. Sugar quality remained high as the Company complied with the Kenya Bureau of Standards (KEBS) requirements for Standardization Mark for brown sugar.

IV. Sales and Commercial Activities

The Company sold a total of 28,031 tonnes of sugar compared to 7,567 tonnes sold in 2019/2020. The average net prices per ton of sugar and molasses were Kshs.75,715 (2020-Kshs.72,169) and Kshs.5,165 (2020-Kshs.3,136) respectively. The 5% increase in average net sugar price was due to enhanced government control over sugar importation which reduced the sugar glut situation in the market. The 65% improvement in average net molasses price in FY 2021 was due to a higher demand.

Most companies have increased their branding levels for better margins and key supermarkets have followed by shifted towards in-house branding thus intensifying competition. The Company's branding level remains lower than most competitors basically due to low investment in branding. The Company intends to expand its sugar branding capacity to increase availability of branded packs in the market and secure some shelf space in local supermarkets going forward.

QUALITY MANAGEMENT

Chemelil Sugar Company Limited has maintained an effective Quality Management System (QMS) across all departments of the Company. This is part of the strategic business decisions intended to improve and sustain the overall performance of the Company's business processes, products and services. The Company renewed its ISO 9001:2015 certification during the period under review after a rigorous re-certification audit.

CORPORATE SOCIAL RESPONSIBILITY

During the year under review, the Company continued to play its role as a responsible corporate citizen with key focus on education, health, sanitation and environment. Through sponsorship of Chemelil Sugar primary and secondary schools and by supporting a number of other public schools within Chemelil zone, the Company continued to empower the population. All candidates who sat KCSE at Chemelil Academy in 2020 attained university entry grade. Chemelil Sugar primary candidates for the same year was ranked the best in the zone and very highly in Kisumu County.

The Company operates a Health Centre that supports staff and the local community through provision of health care services, preventive health campaigns, education and screening facilities. During the year under review, the Company extended water supply from the solar powered borehole water supply system to the local community. This will be launched soon.

The Company maintains a tree nursery which supplies tree seedlings for planting in the non-caneable parts of the Company's expansive nucleus estate as well as for supply to farmers and the community in pursuit of 10% government tree cover policy. Tree seedlings were supplied during the year under review.

HUMAN CAPITAL INVESTMENT

The Company's HR strategy remains focused on building a strong unified team with excellent skills and the resilience necessary to return the Company to prosperity. We believe that our people are the lifeline of the Company's business and that strategic investment in the people enables us attract and retain a highly skilled workforce.

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The year under review came soon after resumption of milling following a 12-month period of non-operation. Consequently, the Company experienced quite some turnover of key skills resulting from uncertainties surrounding the business then. The strategy to talent management is being reviewed to help cope effectively with the demand for top talent in the business. Commitment to continuous training and development remains strong but despite financial constraints.

In the unsettled period, reliance was placed on existing talents, enthusiasm, resilience and commitment of our employees who have been at the heart of the Company's achievements so far. The Company's human resource continued to respond to the changing business environment with zeal and resilience. Management is proud of the commitment within the workforce and remains confident that we will emerge once more from the downward trend experienced in the past years.

The relationship between management and Union remained harmonious with usual consultations on the CBA and welfare matters. The branch held elections during the second quarter as the tenure branch officials then expired. Consequently, a new office was elected and has been in office since then. With the CBA negotiated for 2017-19 having expired, new CBA negotiations are expected anytime, the delay has mainly been due to the obtaining industry business challenges.

LITIGATION, DISPUTE RESOLUTION AND COMPLIANCE

During the year, the Company continued to be vigilant to maintain compliance with laws legislated and government policy directives issued at both national and county levels. The internal legal compliance environment has continuously been evaluated in order to mitigate against any legal exposure in a timely manner.

The Company will continue to explore options available to ensure that operational disputes are minimised and that alternative dispute resolution mechanisms are embraced as a way of resolving most of the current and future litigations while ensuring that the interests of all parties and stakeholders are fairly taken into account.

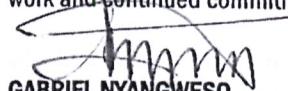
INFORMATION AND COMMUNICATION TECHNOLOGY

The Company has used Sun System version 4.25 as its main financials system without any upgrade since 1999. During the year under review, the Company upgraded its Sun system to version 6.4 which involved improvement of existing modules and introduction of new ones. These included purchasing module, inventory module, sales module and fixed assets module and involved significant computerization/automation of erstwhile manual processes.

Going forward, emphasis will be to finalize implementation of pending system or process improvements and better our return on investment (ROI) with benefits realization management by building user capacity and driving utilization of the ICTs in order to realise and sustain competitive advantage.

APPRECIATION

On behalf of Management and staff, I wish to express my gratitude to all our stakeholders for their valued support over the period. Key among them are 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 sugar customers, materials suppliers and service providers, the Sugar Directorate and Ministry of Agriculture, Livestock and Cooperatives for their continued support. I take this opportunity to sincerely express my appreciation to the Board for their valued guidance and oversight during the financial year under review. Finally, I thank the management and staff for their hard work and continued commitment to the Company.


GABRIEL NYANGWESO
Ag. MANAGING DIRECTOR

CORPORATE GOVERNANCE STATEMENT

Corporate Governance is a key element contributing to Chemelil Sugar Company Limited Business success and sustenance. To this end, the company has implemented the Mwongozo Code of Governance as the Corporate Governance blue print for State Corporations.

The Board of Directors

Chemelil Sugar Company's Board of Directors provide strategic direction to the Company through oversight, review and guidance as well as setting the strategic and policy direction for the realization of the overall Company's strategic objectives.

The Board is comprised 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 of the Company. All the non-executive Directors on the Board are independent of management and free from any business or other relationship which could materially compromise the exercise of their independence.

The Board offers oversight and review matters related to their duties including the Company's strategy, financial performance, corporate governance, ensuring sound maintenance of internal control systems and risk management.

Board Meetings

The Board of Directors meet quarterly in accordance with Board schedules as stipulated in the Mwongozo Code of Governance, in order to monitor the Company's planned strategy and review of the financial performance. Specific reviews of management performance, operational issues and future planning are also undertaken. The Board has a calendar for meetings and matters reserved for it. The directors receive appropriate and timely reports to facilitate informed deliberations and decision making.

Board Committees

The Board has three standing committees with specific delegated authorities and terms of reference. These are Audit Committee, Finance and Human Resource Committee and Strategy and Technical Committee. The Board Committees meet at least once on quarterly basis. The respective committee Chairpersons present their reports to the full Board at the quarterly meetings. The details of these committees and their membership are highlighted below; -

1. Audit Committee

Members

Mr. Jacob Mananda	Chairman
Mr. Kennedy Odhiambo	
Ms. Jacqueline Kiiro	
Mr. Gabriel Nyangweso	Managing Director (Ag)

Role and Functions

The Committee meets quarterly or as maybe necessary. It's 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 Company management may be called to attend any meetings of the Committee to clarify any issue as required by the Committee.

2. Human Resource and Finance Committee

Members

Ms. Christine Atieno	Chairman
Mr. Kennedy Odhiambo	
Mr. David Osiany	
Mr. Mohammed Bulle	
Mr. Gabriel Nyangweso	Managing Director (Ag)

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MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

The Company returned a net loss before tax of Kshs. 549 million basically because of inefficiencies of the factory which had run for 7 years without any major maintenance. Nevertheless, this was a better performance compared to the previous year in which the Company posted a restated net loss of Kshs.694 million. Despite the inefficient condition of the factory, the Company's improved financial performance during the year 2020/2021 was underpinned by higher volume of cane milled and the continuous 12-month long period of production.

Cane availability improved in 2020/2021 because a lot had been conserved during the 12 months of 2019 that Chemelil Sugar factory went without milling and the long rains of the years 2019 and 2020 supported cane growth. This is why cane supply was 3.4 times the previous year and highest in 7 years. Secondly, unlike the previous 7 years when lack of cane forced the Company out of milling operations for between 5-7 months of each financial year, operations were sustained in all the 12 months of the 2020/2021 FY. The longer run created a positive effect on factory operating efficiency thus attaining a better conversion ratio of 14.75 (2020-15.94) tons of cane per ton of sugar.

Operations were also supported by stringent cashflow management. Accurate cane weighing and consistent weekly payments that ensured a credit period of only 2-3 weeks motivated farmers to prefer Chemelil Sugar as the destination for their cane. The Company also negotiated supply and payment schedules with most key suppliers and creditors which ensured that their outstanding accounts were settled in bits alongside new deliveries.

As a direct consequence of February 2021 mini maintenance that preceded resumption of milling operations, the first and second quarters exhibited good production performance. Milling efficiency was optimised till it peaked at a conversion ratio of 12.73 in September 2021. Factory breakdowns set in during the third and fourth quarters leading to loss of production time and reduced sugar recovery with conversion ratio deteriorated to 19.26 in May 2021.

Key Projects or Investments Decisions

One of the key projects during the year was "the sun system upgrade project" in which the Company upgraded its main financial accounting system from sun system version 4.25 to version 6.4. The project involved computerization of key processes like purchasing, inventory management, sales order fulfilment and fixed assets register. The project impacted on accounting procedures, transaction coding and reports generation.

The other project during the year was extension of the solar powered borehole water supply system for Chemelil Academy for access by the local community. This project was necessary as a CSR opportunity to impact the society directly.

Compliance with Statutory Requirements

As an ISO certified Company, compliance with statutory and regulatory requirements form part of our routine concerns for which regular management vigilance applies. These include but not limited to annual manufacturing license, business licenses, occupational safety requirements, environmental compliance and statutory taxes. In exceptional circumstances where the Company falls behind in statutory payments, the Company engages actively with the relevant authority with the aim of establishing the most effective remedial arrangement that is acceptable within the regulator's legal provisions.

The existing statutory obligations in which payments have fallen in arrears include the following:

Institution/Description	Principal Amount In arrears (Kshs.M)	Comment
Tax payable to KRA	2,234	Settling at Kshs.20m monthly
National social security fund	19	Settling at Kshs.0.8m monthly
National hospital insurance fund	27	Settling at Kshs 0.8m monthly
Pension contributions	133	Suspended further deductions
Cess payable to Kisumu and Nandi counties	54	
Total	<u>2,467</u>	

Role and Function

The Human Resources and Finance Committee meets quarterly and is mandated to review financial performance and human resource policies of the company on a regular basis. It also makes suitable recommendations to the Board on executive management appointments among other issues.

3. Strategy and Technical Committee

Members

Mr. David Osiany	Chairman
Mr. Richard Aiyabei	
Ms. Christine Atieno	
Ms. Jacqueline Kiiro	
Mr. Jacob Mananda	
Mr. Gabriel Nyangweso	Managing Director (Ag)

Role and function

The committee meets on need basis to review the operational and strategic issues such as cost management, diversification and information technology needs of the company and make recommendations to the Board on suitable long-term strategies for the company.

The Board appoints other committees as and when required. During the year under review no Board or Board Committee meetings were held.

Communication with Shareholders

The Company is committed to ensuring that shareholders and stakeholders are provided with full and timely information about its performance. This is usually done through the distribution of the Company's Quarterly and Annual Reports to the National Treasury, Parliament and Parent Ministry on quarterly and yearly basis. In this regard, the Company complies with its obligations on good corporate governance practices as contained in Mwongozo Code of Corporate Governance.

Board Evaluation and Performance

The Board conducts an annual evaluation to assess its effectiveness in discharging its mandate. The process entails self-evaluation for each director, evaluation of the Chairman of the Board on the overall Board interactions and conduct of business and the Chief Executive Officer. This is facilitated by State Corporations Advisory Committee (SCAC).

Conflict of Interest

All Directors are required to inform the Board of any conflicts or potential conflict of interest they may have in relation to particular items of the business, in which case they are required to absent themselves from the deliberations and decisions on those matters, unless resolved that they remain.

Mwongozo Code of Governance

The Company has implemented the Mwongozo Code of Governance for State Corporations which was issued by the Presidency. The Company has re-aligned its Code of Conduct to the Leadership and Integrity Act 2012. All the Directors, management and employees are required to uphold.

Risk Management Report

Section 3.2 (a) of the Mwongozo code of conduct requires that the Board ensure the development of a policy on Risk Management. In compliance therefore, the Company is developing the Enterprise Risk Management Framework and the Risk Register.

Management is accountable to the Company for designing, implementing and monitoring the process of risk management and integrating it into the day to-day activities while the Board will be responsible for the adoption or upgrading of the risk management plan. Risk management is the primary responsibility of line management.

Major Risks facing the Company

The major risks facing the Company are tabulated in the table below:

No	Risk	Likelihood	Impact	Risk rating	Risk Response
1.	Sugarcane shortage	5	5	25	Timely cane payments, NE cane development
2.	Factory breakdown	5	4	20	Strategic on-the-run maintenance
3.	Solvency/detrimental creditor actions	3	5	15	Strategic engagements, payment schedules
4.	Adverse market price fluctuation	5	2	10	Weekly surveys and reviews
5.	Industrial instability	3	4	12	Regular consultations, JIC Arbitration

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The Company appreciates the importance of the community and the environment within which it operates and recognises that by managing and improving the social, environmental and economic impacts of its day-to-day operations, there is opportunity to increase public confidence and satisfaction, reduce/prevent negative impacts on the environment. Accordingly, the Company takes deliberate measures to serve the community and uplift their standard of living. The business model strives to ensure that the return on investment is shared with stakeholders to the possible extent.

In the 2020/2021 Financial Year, the Company undertook various Corporate Social Responsibility (CSR) programs by offering the following:

- Sponsorship of schools
- Hosting and making donations to schools, orphanages and churches.
- Supporting community projects
- Donation of tree seedlings for environmental conservation

Health

The health of the community and farmers within chemelil sugar zone is a matter of crucial importance to CSCL. The Company has engaged staff and the community in a number of activities that will work towards a healthy population. The Company has nurtured a working partnership with local NGOs, CBOs and staff to help the community cope with health-related challenges.

As part of its Corporate Social Responsibility program, the Company operates a Health Centre that provides health care services, preventive health campaigns and health education and screening facilities to employees and the local community. The health facility extends its services to the surrounding community through provision of health services such as:-

- Comprehensive Care Centre (CCC)
- Voluntary Male Circumcision (VMC)
- Maternal Child Health Care (MCH)
- Family Planning (FP)
- Consultation
- Referral
- Nursing care
- Laboratory Diagnosis
- Drug dispensing
- Prevention and Management of HIV/AIDS

Education

Education continues to be a vital component of the lifeline of the community in which CSCL operates. The Company has an elaborate school education programme with an annual budget of approximately Kshs.70 million.

The Company runs two schools (Chemelil Sugar Academy and Sugar Primary School) and hosts two other public primary schools (Factory and Chemelil B1 Primary School). During the year under review, the Company contributed materials towards construction of one more classroom in Chemelil B1 primary school. The additional classroom reduced overcrowding which improves quality of education as well as increase accessibility to education.

Sports

The Company sponsors a Football Club which participated in the national Kenyan Premier League (KPL) until August 2020 when it was relegated. The Club supports local talent and provides sporting entertainment both at national and grassroots level. The Company also runs a stadium which is available on request for local schools for their sporting activities and events.

Water and sanitation

The Company supplies clean water for domestic use to the housing estates where its staff and other tenants live. Life would be unbearable in the living quarters if there was no reliable water supply. Basically, the Company harvests underground by use of boreholes which is pumped to overhead tanks for distribution to the estate.

During the year under review, the Company extended a solar powered borehole water supply system installed at Chemelil Academy to the local community. This an opportunity to impact on the society through CSR.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act (Cap. 486), Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act) require 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 are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on June 30, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the 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.

The Directors accept responsibility for the Company's annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Kenyan Companies Act (Cap 486), the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the Company's annual financial statements give a true and fair view of the Company's transactions during the financial year ended June 30, 2021, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's annual financial statements as well as the adequacy of the systems of internal financial control.

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 31-12-2021 and signed on its behalf by:


.....
CHAIRMAN


.....
MANAGING DIRECTOR

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the Company's affairs.

Principal activities

The principal activities of the company continue to be manufacturing and marketing of sugar and co-products from sugarcane and establishment of sugarcane plantations.

Results

The results of the entity for the year ended June 30, 2021 are set out on page 1. Below is summary of the profit or loss made during the year.

	2021 Kshs	Restated 2020 Kshs
Loss before tax	(549,280,577)	(694,566,050)
Tax	-	
Loss for the year	(549,280,577)	(694,566,050)

Dividends

The directors do not recommend the declaration of a dividend for the year 2021 (2020 Shs-Nil).

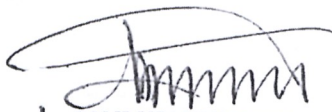
Directors

The members of the Board of Directors who served during the year are shown on page 1.

Independent Auditors

The Auditor General is responsible for the statutory audit of the Company in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



COMPANY CHAIRMAN

31-12-2021

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in use of public resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Chemelil Sugar Company Limited set out on pages 1 to 41, which comprise of the statement of financial position as

at 30 June, 2021, statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Chemelil Sugar Company Limited as at 30 June, 2021, 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 Public Finance Management Act, 2012 and the Companies Act, 2015.

Basis for Qualified Opinion

1. Failure to disclose Material Uncertainty Related to Going Concern

The statement of comprehensive income indicates that during the year under review, the Company incurred an operating loss of Kshs.549,280,557 which raised its accumulated losses from Kshs.7,719,520 at the close of the previous year to Kshs.Kshs.8,295,955,399 as at 30 June, 2021. The current liabilities totalled to Kshs.5,580,303,576 against current assets balance of Kshs.549,397,068 resulting to a negative working capital of Kshs.5,030,906,508.

This material uncertainty in relation to going concern and mitigating measures to reverse the undesirable precarious financial position have not been disclosed in the financial statements.

Therefore, the Company is technically insolvent and its continued operation as a going concern is dependent on the financial support from the Government and creditors.

2. Unreconciled Variances between the Financial Statements and the Ledger

Review of the financial statements for the year ended 30 June, 2021 reflected comparative balances which differs with the audited balances for the financial year 2019/2020.

Further, the balances for various account items differs with the ledger balances provided for audit.

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

3. Property, Plant and Equipment Unsupported Depreciation

The statement of comprehensive income reflects administration expenses amount of Kshs.502,885,881 which, as disclosed in Note 13(a) to the financial statements, includes depreciation amount of Kshs.38,308,693. However, Note 19 to the financial statements on property, plant and equipment schedule reflects an amount of Kshs.154,804,063 resulting to unexplained variance of Kshs.116,495,370.

In the circumstances, the accuracy and completeness of the depreciation charge of Kshs.38,308,693 could not be confirmed.

4. Unsupported Bad and Doubtful Debts

The statement of comprehensive income reflects administrative costs of Kshs.502,885,881 which, as disclosed in Note 13(a) to the financial statements, includes bad and doubtful debts amount of Kshs.21,017,688. Although Management explained the amount to be provisions made against long outstanding debtors whose collectability was considered doubtful, no ageing analyses indicating the details of the long outstanding debtors and the corresponding provisions for doubtful debts were provided for audit review.

In the circumstances, the accuracy and completeness of the bad and doubtful debts amount of Kshs.21,017,688 could not be confirmed.

5. Unsupported Adjustments of Revenue

The statement of comprehensive income reflects revenue amount of Kshs.2,214,173,235 as disclosed in Note 6 to the financial statements. However, the schedules supporting the revenue included adjustments amounting to Kshs.19,918,870 which have not been supported with approved journal vouchers.

In the circumstances, the accuracy and completeness of revenue amounting to Kshs.2,14,173,235 could not be confirmed.

6. Omission of Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.5,165,953,325 which, as disclosed in Note 19 to the financial statements, includes additions during the year amount of Kshs.37,536,098. However, review of documents relating to assets acquired during the year revealed that assets worth Kshs.6,310,429 were omitted from the property plant and equipment schedule and thereby understating the value of the assets.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.37,536,098 could not be confirmed.

7. Non-disclosure of Intangible Assets

The statement of financial position reflects a balance of Kshs.5,165,953,325 in respect of property, plant and equipment as disclosed in Note 19 to the financial statements. It was noted that the company contracted a local company for an upgrade of the Enterprise Resource Planning (ERP) System at a total cost of Kshs. 4,439,608. However, the software upgrade expenses, and the related amortization costs were not reported in the financial statements as required under paragraph 118 of the International Accounting Standards (IAS) 38.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.5,165,953,325 could not be confirmed.

8. Unsupported Balances

8.1 Cane Development Loans

The statement of financial position as disclosed in Note 23 (d) to the financial statements reflects a balance of Kshs.429,249,319 in respect of cane development loans to farmers. However, the supporting schedules provided for audit reflected a balance of Kshs.433,330,703 resulting to unexplained variance of Kshs.4,273,799.

In the circumstances, the accuracy and completeness of cane development loans to farmers balance of Kshs.429,249,319 could not be confirmed.

8.2 Tax Recoverable

As disclosed in Note 24 to the financial statements, the statement of financial position reflects a balance of Kshs.15,183,641 in respect of tax recoverable which includes instalment tax paid, withholding tax on interest income and advance tax on commercial vehicles. However, the supporting documents or analysis for the balances were not provided for audit review.

In the circumstances, the accuracy and completeness of tax recoverable balances of Kshs.15,183,641 could not be confirmed.

9. Irregular Offsetting of Bank Balances

The statement of financial position reflects an overdraft bank balance of Kshs.52,638,719 which, as disclosed in Note 26 to the financial statements, includes a negative bank balance of Kshs.53,632,583. Management attributed the aggregated negative cash and bank balance to an overdraft of Kshs.85,161,657 in KCB Kisumu Project 2 account as reflected in Note 26(a) to the financial statements. This treatment is contrary to Paragraph 32 of IFRS 1 which states that an entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.

Chemellil Sugar Company Limited
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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020/2021 Kshs	Restated 2019/2020 Kshs
REVENUES			
Revenue	6	2,214,173,235	545,542,878
Cost of sales	7	2,217,841,934	930,081,546
Gross profit/(loss)		(3,668,699)	(384,538,667)
Fair value gain on biological assets	8	38,569,783	90,790,785
OTHER INCOME			
Grants from the National Government	9	-	74,541,179
Interest income	10	518,630	3,015,723
Other Income	11	12,803,416	10,100,405
Other gains/(losses)	11	(6,174,775)	(2,135,094)
Total		7,147,272	85,522,213
OPERATING EXPENSES			
Selling and distribution expenses	12	10,442,772	8,967,298
Administrative expenses	13	502,885,881	440,181,335
Finance Costs	14	78,000,260	37,191,750
Total	15	591,328,913	486,340,383
PROFIT/(LOSS) BEFORE TAXATION		(549,280,557)	(694,566,052)
INCOME TAX EXPENSE/(CREDIT)	16	-	-
PROFIT/(LOSS) AFTER TAXATION		(549,280,557)	(694,566,052)
OTHER COMPREHENSIVE INCOME			
Fair value through comprehensive income		-	-
Surplus or deficit on revaluation of PPE		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(549,280,557)	(694,566,052)
Earning/(Loss) per share – basic and diluted	17	(51.92)	(65.65)
Total Comprehensive Earning/(Loss) per share – basic and diluted	17	(51.92)	(65.65)
Dividend per share	18	-	-

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	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Capital/Development Grants/Fund	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
2019	211,591,620	4,614,544,226	0	(7,052,108,792)	0	0	(2,225,972,946)
in gain	-	0	-	-	-	-	0
of excess depreciation on revaluation	-	-	-	-	-	-	0
tax on excess depreciation	-	-	-	-	-	-	0
comprehensive income	-	-	-	(694,566,050)	-	-	(694,566,050)
paid	-	-	-	-	0	0	0
2020	211,591,620	4,614,544,226	0	(7,746,674,842)	0	0	(2,920,538,996)
2020 (As previously stated)	211,591,620	4,614,544,226	0	(7,719,520,914)	0	0	(2,893,385,068)
adjustment	-	-	-	(27,153,928)	-	-	(27,153,928)
2020	211,591,620	4,614,544,226	0	(7,746,674,842)	0	0	(2,920,538,996)
new share capital	0	0	0	0	0	0	0
in gain	-	0	-	-	-	-	0
of excess depreciation on revaluation	-	-	-	-	-	-	0
tax on excess depreciation	-	-	-	-	-	-	0
comprehensive income	-	-	-	(549,280,557)	-	-	(549,280,557)
paid	-	-	-	-	0	0	0
2021	211,591,620	4,614,544,226	0	(8,295,955,399)	0	0	(3,469,819,553)

The prior year adjustment relates to correction of an error during valuation of biological assets during the previous year whose details are provided under note 30

Chemelll Sugar Company Limited

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For the year ended June 30, 2021**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020/2021 Kshs	2019/2020 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used In) operations	37(a)	(13,036,447)	19,917,757
Interest received	37(d)	0	0
Interest paid	37(d)	0	(563,488)
Dividends paid	37(e)	0	0
Taxation paid	24	0	0
Net cash generated from/(used In) operating activities		(13,036,447)	19,354,269
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	19	(37,536,098)	(19,541,366)
Proceeds from disposal of property, plant and equipment		0	0
Purchase of intangible assets	20	0	0
Net cash generated from/(used In) investing activities		(37,536,098)	(19,541,366)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	31	0	0
Repayment of borrowings	31	(14,128,684)	(14,982,223)
Net cash generated from/(used In) financing activities		(14,128,684)	(14,982,223)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(64,701,229)	(15,169,321)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		12,062,510	27,231,830
Effects of foreign exchanges rate fluctuations		0	0
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	37(b)	(52,638,719)	12,062,510

**Annual Reports and Financial Statements
for the year ended June 30, 2021**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2021

	Original budget 2020-2021	Adjustments 2020-2021	Final budget 2020-2021	Actual on comparable basis 2020-2021	Performance difference 2020-2021
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Sale of goods	(3,352,021,300)	-	(3,352,021,300)	(2,214,173,235)	(1,137,848,065)
Finance Income	(4,000,000)	-	(4,000,000)	(518,630)	(3,481,370)
Other income	(15,000,000)	-	(15,000,000)	(45,198,416)	30,198,416
Total Income	(3,386,021,000)	-	(3,386,021,000)	(2,259,890,281)	(1,111,131,019)
Expenses					
Compensation of employees	590,000,000	-	590,000,000	573,023,443	16,976,557
Use of goods and services	2,030,632,032	-	2,030,632,032	1,429,668,208	600,963,824
Finance cost	76,301,000	-	76,301,000	78,000,260	(1,699,260)
Other payments	662,555,299	-	662,555,299	728,478,945	(65,923,646)
Total expenditure	3,359,488,331	-	3,359,488,331	2,809,170,856	550,317,475
Surplus for the period	(26,532,669)	-	(26,532,669)	549,280,575	(560,813,544)

EXPLANATION OF VARIANCES

- i) **Sale of goods:**
The adverse variance was due to lower sales of 28,031 tonnes of sugar against the budget of 44,696 tonnes due to lower than budgeted production during the year
- ii) **Finance Income:**
The lower than budgeted income was because the Company's advances to farmers had reduced due to limited resources
- iii) **Other Income:**
The positive variance was because the Company recorded high gains upon valuation of its sugarcane plantation. Mature cane inventory had improved in the Nucleus Estate.
- iv) **Use of goods and services:**
The positive variance arose from the fact that the factory milled only 411,211 tonnes of cane out of the 549,755 budgeted. A lot of production hours was lost while the factory suffered frequent breakdowns following a long period of operation without annual maintenance. A major maintenance is planned in the subsequent year to address this challenge.
- v) **Other Payments:**
The adverse variance arose because the cost of running the factory escalated arising from frequent breakdowns.

Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Chemelil Sugar Company is established by and derives its authority and accountability from Corporations Act and Companies Act (Cap 486). The Company is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activities are manufacture and marketing of sugar from sugarcane and establishment of sugarcane plantations.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

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

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

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2021

Amendments to IFRS 16 titled 'Covid-19-Related Rent Concessions beyond 30 June 2021' (Issued In March 2020)

The amendments, applicable to annual periods beginning on or after 1 April 2021, that extends, by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16 titled 'Interest Rate Benchmark Reform – Phase 2' (Issued In August 2020)

The amendments, applicable to annual periods beginning on or after 1 January 2021, with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

ii) New and amended standards and Interpretations In Issue but not yet effective In the year ended 30 June 2021

Amendments to IAS 1 titled 'Classification of Liabilities as Current or Non-current (Issued In Jan 2020) The amendments, applicable to annual periods beginning on or after 1 January 2023, 'providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

Amendments to IAS 12 titled 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Issued In May 2021) The amendments, applicable to annual periods beginning on or after 1 January 2023, 'that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.

Amendments to IFRS 17 titled 'Amendments to IFRS 17' (Issued In June 2020) The amendments, applicable to annual periods beginning on or after 1 January 2023, 'to address concerns and implementation challenges that were identified after IFRS 17 'Insurance Contracts'.

Amendments to IAS 1 titled 'Disclosure of Accounting Policies' (Issued In February 2021) The amendments, applicable to annual periods beginning on or after 1 January 2023, 'with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements '.

Amendments to IAS 8 titled 'Definition of Accounting Estimates' (Issued In February 2021) The amendments, applicable to annual periods beginning on or after 1 January 2023, 'to help entities to distinguish between accounting policies and accounting estimates.

Amendments to IFRS 17 titled 'Insurance Contracts' (Issued In May 2017) The amendments, applicable to annual periods beginning on or after 1 January 2023.

Amendments to IAS 16 titled 'Property, Plant and Equipment – Proceeds before Intended Use' (Issued In February 2020) The amendments, applicable to annual periods beginning on or after 1 January 2022, 'regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management'.

Annual Improvements cycle titled 'Annual Improvements to IFRS Standards 2018-2020' (Issued In May 2020) The amendments, applicable to annual periods beginning on or after 1 January 2022. The pronouncement contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project.

Amendments to IAS 37 titled 'Onerous Contracts – Cost of Fulfilling a Contract (Issued In May 2020) The amendments, applicable to annual periods beginning on or after 1 January 2022, amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous '.

Amendments to IFRS 3 titled 'Reference to the Conceptual Framework' (Issued In May 2020) The amendments, applicable to annual periods beginning on or after 1 January 2022, with amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing its requirements '.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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 listed above will have no material impact on the financial statements of the company and will be adopted as need arises according to the existing policies and strategies. The IASB's annual improvements process deals with non-urgent, minor amendments to standards.

III) **Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2021.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a) **Revenue recognition**

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the *Company's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *Company's* activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the Company actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance Income** comprises interest receivable from bank deposits and loans given to farmers for sugarcane development and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Rental Income** is recognised in the income statement as it accrues using the effective lease/tenancy agreements.
- v) **Other Income** is recognised as it accrues.

b) **In-kind contributions**

In-kind contributions are donations that are made to the Company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition for its intended use. 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.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers. 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.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

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 transferred from the revaluation reserve to retained earnings.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

d) Depreciation and Impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

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

	<u>Rate %</u>
i) Buildings and roads:	
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 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	25%

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate. A full year's depreciation charge is recognised in the year of asset purchase. No depreciation is charged in the year of asset disposal.

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

e) Intangible assets

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

f) Amortisation and Impairment of Intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

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

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.

g) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

h) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Chemell Sugar Company Limited
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method.

j) Trade and other receivables

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

k) Taxation

Current Income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

l) Cash and cash equivalents

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

Chemelil Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Borrowings

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

n) Trade and other payables

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

o) Retirement benefit obligations

The Company operates a defined contribution scheme for all full-time employees in managerial cadre. The scheme is administered by an in-house Board of Trustees and is funded by contributions from both the Company and its employees. The Company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.1,700 per employee per month.

p) Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue to the employees. A provision is made for the estimated liability for annual leave at the reporting date.

q) Exchange rate differences

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

r) Budget Information

The Company's budget for FY 2020-2021 was approved by the Ministry of Agriculture Livestock, Fisheries and Co-operatives – State Department of Crop Development on 12th August 2020 having received National Treasury recommendation for approval. This was in compliance with requirements of Section 11 and 12 of the State Corporations Act, Cap 44 and Section 68 of the Public Finance Management Act, 2012.

The Company's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

Chemelil Sugar Company Limited

Annual Reports and Financial Statements For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

b) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2021.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and assumptions

The Company based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values

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

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

The rates of depreciation assigned to each class of assets is a result of such assessments.

Biological assets

In arriving at the fair valuation of biological assets, the management has adopted IAS 41 and 61 in valuation of cane bearer plant, cane bearer plant work in progress, growing consumable cane and livestock.

The Company estimates the fair value of its growing consumable sugarcane as the product of estimated yield in tonnes of standing cane at its present age and the prevailing cane price less point of sale cost. The yield is estimated as the product of the area covered by the standing cane in hectares, the age of cane in months and the average cane yield per hectare per month (TCHM).

Bearer plant is measured at cost and depreciated over its productive life assumed to be an average of 48 months. The cumulative cost of land development and cane establishment from 0-6 months is capitalised. Livestock is recognised at acquisition cost and revalued at each year end using the prevailing market price for the animal category.

The biological assets valuation estimates and assumptions are detailed in Note 21.

Chemelil Sugar Company Limited

**Annual Reports and Financial Statements
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 13. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

The Company made the following provisions in the year; Bad and doubtful debts Kshs. 21,017,688; Provision for tax penalty and interest Ksh. 153,582,365 and Interest on pension arrears Ksh. 35,113,480. These have been listed as part of administrative costs under Note.13 (a). The tax penalty and interest has been computed on a self-assessment basis using the rates contained in the tax procedure act 2015 and other relevant tax legislations. Interest on pension arrears is computed by pension scheme administrators. Other provisions under staff costs are staff gratuity provision of Kshs. 12,252,045 and reduction of leave pay provision of Kshs. 1,193,098 as captured under Note 13 (b).

6 REVENUE

	2020/2021 Kshs	2019/2020 Kshs
Net sales of Sugar	2,139,831,590	530,813,975
Net sales of Molasses	74,341,645	14,728,903
Total net sales	2,214,173,235	545,542,878
Gross sales	2,568,440,953	621,264,676
Less: Value added tax on gross sales	(354,267,718)	(75,721,797)
Total	2,214,173,235	545,542,878

Sugar and molasses are the main products of the Company. Molasses is produced as a by-product of the sugar process.

7 COST OF SALES

	2020/2021 Kshs	Restated 2019/2020 Kshs
Cost of cane milled: Nucleus	133,001,564	35,263,230
Outgrowers	1,337,666,144	378,291,413
Change in value of unmilled cane	(1,934,000)	(1,500,000)
Total Cost of Cane milled	1,468,733,708	412,054,643
Agriculture		
Staff Cost	91,480,244	76,779,233
Agriculture overheads	55,672,873	15,975,881
	147,153,117	92,755,114
Manufacturing		
Staff Cost	285,445,126	182,405,518
Processing Costs	55,668,540	48,750,579
Repairs and maintenance	193,922,223	141,200,968
Other factory overheads	15,062,633	9,607,369
Depreciation-factory	77,998,089	79,211,825
	628,096,611	461,176,259
Change in value of sugar in process	(35,926,393)	(18,771,225)
Change in value of finished goods	9,784,891	(17,133,246)
Cost of goods sold	2,217,841,934	930,081,546

Cane from outgrowers is valued at the cane price paid to farmers. Cane from Nucleus estate is valued at the fair value less point of sale cost recognised during the latest valuation plus cost of harvesting and transporting the cane to the factory. Manufacturing cost includes agriculture and factory overheads.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 FAIR VALUE GAIN/(LOSS) ON BIOLOGICAL ASSETS

	2020/2021 Kshs	Restated 2019/2020 Kshs
Gain on consumable growing cane	38,208,783	90,558,785
Gain on livestock	361,000	232,000
Total	38,569,783	90,790,785

The comparative figure for the fair value gain on consumable growing cane has been restated after a prior year adjustment to correct an overstatement of gain on growing cane in the previous financial year, the details of which are provided under note 21 (c) and note 30.

9 GRANTS FROM NATIONAL GOVERNMENT

	2020/2021 Kshs	2019/2020 Kshs
Recurrent grants received	-	74,541,179
Capital grants realized (see note below)	-	-
Total	-	74,541,179

No government grant was received during the year.

10 INTEREST INCOME

Description	2020/2021 Kshs	2019/2020 Kshs
Interest income:		
- from receivables	518,630	3,015,723
Total	518,630	3,015,723

Interest income on receivables relates to interest that the Company charges farmers in relation to credit advances for farm inputs. The Company recovers these from cane proceeds payable to farmers on harvested cane.

11 OTHER INCOME, GAINS AND LOSSES

(a) Other Income

Description	2020/2021 Kshs	2019/2020 Kshs
Rental Income	11,967,008	11,279,360
Other miscellaneous receipts	836,399	(188,424)
Physical Inventory adjustments	9	(990,531)
Total	12,803,416	10,100,405

Rental income is received from tenants allocated living quarters within employee residential estates. These include temporary employees, employees of key service providers and civil servants serving within the local community. Miscellaneous sales include sale of stock and non-stock items that are not part of the main products of the Company.

(b) Other Gains and Losses

Description	2020/2021 Kshs	2019/2020 Kshs
(Loss)/gain on disposal of property, plant and equipment	(6,174,775)	(2,135,094)
Total	(6,174,775)	(2,135,094)

Chemelil Sugar Company Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Company's sugarcane fields holding cane bearer plants held at a total cost of Kshs. 31,660,695 and accumulated depreciation of Kshs. 25,492,883 were reploughed/fallowed during the year, thereby disposing the bearer plant at a loss equivalent to its undepreciated cost.

12 MARKETING AND DISTRIBUTION EXPENSES

Description	2020/2021 Kshs	2019/2020 Kshs
Staff costs – sales personnel	5,985,863	7,288,445
Product Handling and distribution costs	3,697,204	1,453,053
Depreciation - distribution equipment	759,705	225,800
Total	10,442,772	8,967,298

13 ADMINISTRATIVE EXPENSES

(a) Administration Costs

Description	2020/2021 Kshs	2019/2020 Kshs
Staff costs - other (note 13b)	190,147,391	193,199,496
Directors' emoluments	366,329	1,433,542
Auditors' remuneration	750,000	1,158,023
Legal fees and court awards	17,687,596	6,105,553
Medical Services	5,286,653	3,851,747
Staff training expenses	32,000	72,680
Insurance costs - other	5,013,762	5,055,834
Bank charges and commissions	2,498,852	5,805,835
Electricity and water	7,845,603	2,634,278
Repairs and maintenance	7,688,462	4,391,295
Stationery, printing and photocopying	3,447,579	2,341,624
Travelling and subsistence	1,546,724	1,832,839
Communication services and supplies	602,833	443,946
Office and general supplies and services	-	1,323,014
Depreciation - other	38,308,693	33,485,879
Bad and doubtful debts	21,017,688	6,011,667
Tax penalty and interest	153,582,365	158,987,868
Interest on pension arrears	35,113,480	15,895,443
Other administrative expenses	11,949,871	(3,849,229)
Total	502,885,881	440,181,335

The tax penalty and interest has been computed on a self-assessment basis using the rates contained in the tax procedure act 2015 and other relevant tax legislations. Interest on pension arrears is as computed by pension scheme administrators.

(b) Staff Costs

Description	2020/2021 Kshs	2019/2020 Kshs
Salaries and allowances of permanent employees	435,865,421	377,560,952
Wages of temporary employees	131,365,116	51,192,352
National social security schemes	2,445,900	1,328,600
Pension contributions	8,079,623	13,021,027
Staff gratuity provision	12,252,045	4,853,250
Leave pay provision	(1,193,098)	7,133,611
Staff welfare	10,391,099	10,987,516
Total	599,206,107	466,077,307

Chemelil Sugar Company Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 (b) STAFF COSTS (Continued)

The average number of employees at the end of the year was:

Permanent employees – Management	193	228
Permanent employees – Unionisable	281	296
Temporary and contracted employees	494	537
Total	968	1061

The government has restricted employment on permanent basis as a measure to maintain a lean workforce in preparation towards privatization plans. Consequently, there has been a consistent rise in the use of temporary and term employees over time as the number of permanent staff reduce through natural attrition.

14 FINANCE COSTS

Description	2020/2021 Kshs	2019/2020 Kshs
Interest expense:		
- on commodity loans	78,000,260	36,792,482
- on IPF loans	-	399,268
- on bank overdrafts	-	-
Total	78,000,260	37,191,750

Interest on commodity loans accrue at the rate of 5% on outstanding principal amount and 6% on defaulted balances.

15 OPERATING PROFIT/(LOSS)

Description	2020/2021 Kshs	2019/2020 Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 13b)	599,206,107	466,077,307
Depreciation of property, plant and equipment	154,804,063	154,356,102
Amortisation of intangible assets	-	-
Provision for bad and doubtful debts	21,017,688	6,011,667
Directors' emoluments - fees	-	-
- other	366,329	4,342,742
Auditors' remuneration - current year fees	200,000	307,428
- prior year under-provision	-	-
Loss on disposal of property, plant and equipment	6,174,775	2,135,094
Net foreign exchange loss	-	-
Total	781,768,962	633,230,340

16 INCOME TAX EXPENSE/(CREDIT)

(a) Income tax

Description	2020/2021 Kshs	2019/2020 Kshs
Current tax charge	-	-
Deferred tax charge (note 28)	-	-
Income tax expense/(credit)	-	-

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16, INCOME TAX EXPENSE/(CREDIT) (Continued)

(b) Reconciliation of tax expense/ (credit) to the expected tax based on accounting profit

The tax on the Company's loss before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2020/2021 Kshs	2019/2020 Kshs
Profit/(loss) before taxation	(549,280,557)	(667,412,122)
Tax calculated at the statutory tax rate of 30% (2020:30%)	(164,784,167)	(200,223,637)
Tax effect of:		
- Expenses not deductible for tax purposes		298,779,146
- Prior year under/(over) provision in deferred tax		(37,479,810)
- Deferred tax not recognised		(61,075,699)
Income tax expense/(credit)	=====	=====

17 LOSS PER SHARE

The loss per share is calculated by dividing the loss after tax by the average number of ordinary shares in issue during the year. There were not dilutive or potentially dilutive ordinary share as at the reporting date.

	2020/2021 Kshs	2019/2020 Kshs
Loss for the year attributable to equity shareholders	(549,280,557)	(694,566,052)
Total comprehensive loss per share attributable to equity shareholders	(549,280,557)	(694,566,052)
Weighted average number of shares in issue (note 28)	10,579,581	10,579,581
Loss per share	(51.92)	(65.65)
Total comprehensive loss per share	(51.92)	(65.65)

18 DIVIDEND PER SHARE

The directors do not recommend payment of a dividend for the year (2019-2020: Nil)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

PROPERTY, PLANT AND EQUIPMENT

	Freshhold land		Buildings & civil works		Plant and machinery		Motor vehicles, including motor cycles		Furniture, fittings & equipment		Sugarcane Bearer Plant		Capital work in progress		Total	
		Kshs		Kshs		Kshs		Kshs		Kshs		Kshs		Kshs		Kshs
2020	2,000,000,000		1,956,480,000		1,520,622,467		19,984,965		92,799,368		157,719,064		1,235,542		5,748,841,406	
Surplus	-		-		2,363,740		358,620		2,605,246		-		32,208,493		-	
	-		-		-		-		-		11,192,002		(11,192,002)		-	
	-		-		-		-		-		(31,660,695)		-		(31,660,695)	
2021	2,000,000,000		1,956,480,000		1,522,986,207		20,343,585		95,404,613		137,250,371		22,252,033		5,754,716,809	
2020	-		-		891,843,123		23,519,836		95,404,613		137,250,371		22,252,033		1,173,821,400	
	2,000,000,000		1,952,928,576		631,143,084		(3,176,251)		-		-		-		4,580,895,409	
2021	2,000,000,000		1,956,480,000		1,522,986,207		20,343,585		95,404,613		137,250,371		22,252,033		5,754,716,809	
2020	-		97,824,000		170,358,745		8,336,087		86,744,939		96,188,534		-		459,452,304	
Revaluation	-		-		-		-		-		-		-		-	
2020	-		48,833,451		85,027,645		3,873,864		2,426,938		14,642,165		-		154,804,063	
Loss	-		-		-		-		-		-		-		-	
on disposal	-		-		-		-		-		(25,492,883)		-		(25,492,883)	
2021	-		146,657,451		255,386,390		12,209,951		89,171,876		85,337,815		-		588,763,484	
VALUE At June	2,000,000,000		1,809,822,549		1,267,599,817		8,133,634		6,232,737		51,912,556		22,252,033		5,165,953,325	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles, including motor cycles	Furniture, fittings & equipment	Sugarcane Reaper Plant	Capital work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
NET BOOK VALUE AT								
July 1, 2019 As previously reported	2,000,000,000	1,956,480,000	1,515,183,871	19,716,000	86,814,108	116,591,693	48,673,471	5,743,459,143
air year adjustment	-	-	-	-	-	26,089,480	(26,089,480)	-
July 1, 2019 As stated	2,000,000,000	1,956,480,000	1,515,183,871	19,716,000	86,814,108	142,681,173	22,583,991	5,743,459,143
valuation Surplus	-	-	-	-	-	-	-	-
Impairment provisions	-	-	5,438,597	268,965	5,985,260	-	7,848,545	19,541,366
Impairment reversals	-	-	-	-	-	29,196,994	(29,196,994)	-
Impairment provisions	-	-	-	-	-	(14,159,103)	-	(14,159,103)
June 30, 2020	2,000,000,000	1,956,480,000	1,520,622,467	19,984,965	92,799,368	157,719,064	1,235,542	5,748,841,406
DEPRECIATION								
June 30, 2019	-	3,551,424	891,843,123	23,161,216	92,799,368	157,719,064	1,235,542	1,170,309,737
Charge for the year	2,000,000,000	1,952,928,576	628,779,344	(3,176,251)	-	-	-	4,578,531,669
Reversal on disposal	2,000,000,000	1,956,480,000	1,520,622,467	19,984,965	92,799,368	157,719,064	1,235,542	5,748,841,406
June 30, 2020	-	48,912,000	85,399,715	4,487,447	84,673,331	93,647,718	-	317,120,212
Charge for the year	-	48,912,000	84,959,030	3,848,640	2,071,607	14,564,824	-	154,356,102
Reversal on disposal	-	-	-	-	-	(12,024,009)	-	(12,024,009)
June 30, 2020	-	97,824,000	170,358,745	8,336,087	86,744,939	96,188,534	-	459,452,304
BOOK VALUE AT June 2020	2,000,000,000	1,858,656,000	1,350,263,722	11,648,878	6,054,429	61,530,530	1,235,542	5,289,389,102

Land and buildings were revalued on 30th June 2018 by Tysons Limited based on open market value basis (level 2). The same valuers valued factory plant and machinery, agricultural machinery and equipment and motor vehicles on a depreciated replacement cost basis (level 2). The capital work in progress balance mainly represents expenditure on development of sugarcane within the Company's nucleus estate that was still at immature stage (0-6 months) as at the reporting date.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company accounts for its biological assets in accordance with revised IAS 41 and IAS 16. Under the standards, the root system of growing sugarcane is recognised as bearer plant from the 7th month when it is fully developed. At this stage, sugarcane begins to bear produce (sucrose) and remains productive for at least 3 harvest cycles of 16 months each as cane stamps sprout again into a new produce after each harvest.

Significant assumptions made in determining the carrying values of bearer plants include:

- a) Bearer plants are carried at cost less depreciation. The cumulative cost of developing cane has been capitalised and depreciated over the plant's economic life estimated to be 48 months. All costs incurred after the 6th month are expensed as maintenance costs.
- b) Cane aged 0-6 months is considered immature since the root system is still developing. Cost incurred at this stage is recognised as work in progress.
- c) On initial application of the standard, the cost value of existing bearer plants was estimated using standard cost of cane development per hectare. All subsequent additions are recognised at actual cost.

As at 30th June 2021, 58% (2020: 63%) of the nucleus estate farm measuring 1,335.5 ha (2020: 1,432.8 ha) had mature bearer plant. Fourteen percent (2020: Nil) of the estate land measuring 311.7 ha (2020: Nil) had immature bearer plant while 28% (2020: 38%) was fallow.

During the year, 499 ha (2020: Nil) was planted with new cane, 188 ha (2020: 229 ha) of growing cane matured and was 279 ha transferred for recognition as additional bearer plant while 279 ha (2020: 144) of mature bearer plant was fallowed or uprooted by ploughing.

All property, plant and equipment other than bearer plants have been charged to secure banking facilities as disclosed under note 31. Property, plant and equipment include the following items that were fully depreciated:

2019-2020	Cost or valuation	Normal annual depreciation charge
Motor vehicles, including motor cycles	-	-
Furniture, fittings and equipment,	69,932,655	13,986,531
Cane bearer plant	6,130,282	1,455,942
Total	76,062,937	15,442,473
	=====	=====
2020-2021	Cost or valuation	Normal annual depreciation charge
Motor vehicles, including motor cycles	-	-
Furniture, fittings and equipment,	70,286,455	14,057,291
Cane bearer plant	6,455,299	1,533,133
Total	76,741,754	15,590,424
	=====	=====

The Company owns 2,700 hectares of freehold land. The land has been charged to secure banking facilities granted to the Company as disclosed in note 31. The land was last valued on 30th June 2018 by Tysons Limited on an open market basis at Kshs 2,000,000,000. The value of the land has been reflected in the statement of financial position as part of property plant and equipment.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. BIOLOGICAL ASSETS
a) Growing Cane

	2020/2021 Kshs	Restated 2019/2020 Kshs
At the beginning of the year	126,056,968	24,372,532
Prior year adjustment	(27,153,928)	-
At the beginning of the year restated	98,903,040	24,372,532
Decrease due to harvest at fair value less point of sale costs	(96,610,103)	(16,028,277)
	2,292,937	8,344,255
Gains arising from changes in fair value attributable to:		
- biological transformation	10,676,843	90,558,785
- price changes	27,531,940	-
Fair value gain/(loss) on valuation	38,208,783	90,558,785
At the end of the year	40,501,720	98,903,039

The Company grows sugar cane in its Nucleus Estate whose produce is harvested for replanting or milling and has accounted for its biological assets in accordance with revised IAS 41 and IAS 16. Cane stem is recognised as the consumable growing produce from the 7th month when it begins to form sucrose. The produce fully matures with maximum sucrose 14 months thereafter but can be harvested as early as 9 months as seed cane.

Significant assumptions made in determining the fair values of growing produce (biological assets) are:

- i) Growing produce has been stated at fair value less point of sale cost. Only cane aged 9 months and above is assigned a value as it is only then that it can be harvested for use as seed cane. The value is based on market price of Kshs. 4,040 per tonne of sugarcane (June 2019-Kshs.3750).
- ii) Growing produce has been quantified in tonnes as the product of average productivity per unit acreage at harvest age (TCHM) and actual acreage in hectares covered by the produce. The TCHM for 2021 was 1.91 (2020-2.38).
- iii) All costs incurred to maintain growing produce are expensed.

As at 30 June 2021, 1,647.3 ha (2020: 1,432.8 ha) of nucleus estate land was covered by growing cane produce. Of this 50% (2020:67%) covering 816.5 ha (2020: 955.3 ha) had mature produce ready for harvest while 32% (2020: 33%) covering 519 ha (2020: 477.5 ha) had immature produce. The remaining 19% (2020: Nil) of growing cane covering 659ha (2020: Nil) had not borne recognizable produce.

During the year, 60,032 tonnes (2020: 15,831) of mature produce was harvested from the nucleus estate with a fair value less estimated point of sale cost of Kshs.99,660,910 (2020: Kshs.16,028,277). In determining the present value of expected net cash flows, the Company has not discounted the cash flows as standing cane will mature within the next reporting period and therefore the impact of the time value of money on estimated future cashflows is not significant.

The Company expects to harvest the mature cane produce held at the end of the year within the next 12 months and thus the growing produce has been presented as current assets.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 BIOLOGICAL ASSETS

b) Livestock

	2020/21 Kshs	Restated 2019/2020 Kshs
At the beginning of the year	1,485,000	1,126,000
Increase due to acquisitions and births	-	205,000
Decrease due to slaughter or sale at fair value less point of sale costs	(600,000)	(78,000)
	<u>885,000</u>	<u>1,253,000</u>
Gains arising from changes in fair value attributable to:		
- biological transformation	370,000	62,000
- price changes	(9,000)	170,000
	<u>361,000</u>	<u>232,000</u>
Fair value gain/(loss) on valuation	<u>361,000</u>	<u>232,000</u>
At the end of the year	1,246,000 =====	1,485,000 =====

The Company keeps dairy cattle in its Academy Section whose produce is used within the school to reduce boarding expenses and has accounted for its biological assets in accordance with revised IAS 41 and IAS 16. The herd of dairy animals has been stated at fair value less point of sale cost. The value is based on the open market price of dairy animals categorised as follows

Animal category	2020/2021 Fair Market Price (Kshs)	2019/2020 Fair Market Price (Kshs)
Calf	15,000	20,000
Heifer	85,000	80,000
Lactating cow	150,000	150,000
Bull	120,000	120,000
Goats	6,000	5,000

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 INVENTORIES

	2020/21 Kshs	2019/2020 Kshs
Product Stock		
Milled Sugar	7,102,715	17,214,216
Molasses	705,000	387,750
In-process stocks		
Milled sugar-in-process	54,697,618	18,771,225
Molasses in process	-	-
Subtotal	<u>62,505,333</u>	<u>36,373,191</u>
Raw material stock		
Un-milled Cane	3,434,000	1,500,000
Other materials and consumables		
Factory and field stores	257,238,454	242,130,754
Consumable Stores	12,374,619	-
Stationery	2,703,633	2,294,882
Medicines	126,429	1,149,392
	<u>275,877,135</u>	<u>247,075,028</u>
Less: Impairment	(82,862,848)	(82,862,848)
Subtotal	<u>193,014,288</u>	<u>164,212,181</u>
Total	<u>255,519,621</u> =====	<u>200,585,371</u> =====

Product stock balances have been valued using FIFO method and the ledger balance written down to net realizable value given that it was lower than cost. The write down of inventories recognised as an expense during the year amounted to Kshs. 2,269,434 (2020-Kshs Nil). All the other stocks have been valued at their weighted average costs. All stocks categorised as obsolete previously recognised at Kshs. 82,862,848 based on average cost have been fully impaired.

23(a) TRADE AND OTHER RECEIVABLES

	Gross Amount Kshs	Provision for Impairment Kshs	Net Amount Kshs
At 30th June 2021:			
Trade receivables (note 23b)	57,161,868	(39,230,415)	17,931,453
Loans to Outgrowers	429,249,319	(407,498,764)	21,750,555
Deposits and prepayments	4,892,778	-	4,892,778
Staff receivables (note 23c)	27,697,981	(1,268,664)	26,429,317
Other receivables (note 23d)	320,171,157	(59,842,735)	260,328,423
Total trade and other receivables	<u>839,173,103</u> =====	<u>(507,840,577)</u> =====	<u>331,332,526</u> =====
At 30th June 2020:			
Trade receivables (note 23b)	46,838,761	(36,310,920)	10,527,841
Loans to Outgrowers	430,803,907	(407,498,764)	23,305,143
Deposits and prepayments	39,019,759	-	39,019,759
Staff receivables (note 23c)	9,970,431	(1,268,664)	8,701,767
Other receivables (note 23d)	174,803,400	(41,744,542)	133,058,859
Net trade and other receivables	<u>701,436,258</u> =====	<u>(486,822,889)</u> =====	<u>214,613,368</u> =====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (b) TRADE RECEIVABLES

	2020/21 Kshs	2019/2020 Kshs
Gross Sugar receivables	48,033,926	37,312,899
Provision for doubtful receivables	(32,391,495)	(29,935,233)
	15,642,431	7,377,666
Gross Molasses Receivables	9,127,942	9,525,862
Provision for doubtful receivables	(6,838,920)	(6,375,687)
	2,289,023	3,150,175
	17,931,453	10,527,841
	=====	=====

At June 30, the ageing analysis of the gross trade receivables was as follows:

Less than 30 days	5,533,998	XXX
Between 30 and 60 days	3,648,136	XXX
Between 61 and 90 days	518,951	XXX
Between 91 and 120 days	5,373	XXX
Over 120 days	47,455,411	XXX
	57,161,868	XXX
	=====	=====

Directors have made provision for amounts whose recovery is uncertain.

23 (c) STAFF RECEIVABLES

	2020/21 Kshs	2019/2020 Kshs
Gross staff debtors and advances	27,697,981	9,970,431
Provision for impairment loss	(1,268,664)	(1,268,664)
	26,429,317	8,701,767
	=====	=====
Less: Amounts due within one year	27,697,981	9,970,431
Amounts due after one year	-	-
	=====	=====

The Company operates a staff car and cycle loan scheme for employees whereby eligible employees are given loans to acquire cars for their personal use. The loans which are secured by the vehicles acquired using the proceeds are payable within a maximum period of 60 months. The interest rate on staff loans is 5%. There were no outstanding staff receivables balances as at reporting date (2020-Kshs.Nil)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (d) CANE DEVELOPMENT LOANS TO FARMERS

	Gross Amount Kshs	Provision for Impairment Kshs	Net Amount Kshs
At 30th June 2021:			
Farmer cooperatives	375,706,867	(365,958,108)	9,748,760
Large & small scale farmers	52,091,000	(40,706,920)	11,384,080
Transporters	1,451,451	(833,736)	617,715
	<u>429,249,319</u>	<u>(407,498,764)</u>	<u>21,750,555</u>
	=====	=====	=====
At 30th June 2020:			
Farmer cooperatives	376,142,870	(365,958,108)	10,184,762
Large & small scale farmers	53,218,856	(40,706,920)	12,511,936
Transporters	1,442,181	(833,736)	608,445
	<u>430,803,907</u>	<u>(407,498,764)</u>	<u>23,305,143</u>
	=====	=====	=====

Cane development Loans relate to cost of farm inputs supplied and services rendered to farmers on credit. The farmer's standing cane established using these funds and title deed for the land on which it stands act as collateral for the loan. Recovery is made when the cane matures and is harvested. Under the current contracts, 60% is recovered from the 1st harvest, 20% from 2nd harvest and the remaining 20% from 3rd harvest. Interest is charged at the rate of 12% on recoverable loan balances. Directors have made provision for amounts whose recovery is uncertain.

23 (e) OTHER RECEIVABLES

	2020/21 Kshs	2019/2020 Kshs
Farmers, Transporters & Cutters advances	15,365,237	10,544,129
Provision for impairment loss	(10,695,938)	(10,695,938)
	4,669,300	(151,809)
Other receivables	53,612,735	63,950,908
Provision for impairment loss	(49,146,797)	(31,048,604)
	4,465,938	32,902,304
	<u>9,135,238</u>	<u>32,750,495</u>
Payables with debit balances		
Trade payables	44,242,578	8,563,643
Small scale farmers	80,816,948	34,203,536
Large Scale Farmers	67,292,095	22,799,008
Transporters & Harvesters	10,874,426	
Cane Maintenance Contractors	2,482,677	
Payroll Liabilities	39,597,605	33,622,930
Other payables	5,886,856	1,119,246
	<u>251,193,185</u>	<u>100,308,363</u>
	<u>260,328,423</u>	<u>133,058,859</u>
	=====	=====
Less: Amounts due within one year	320,171,157	174,803,400
Amounts due after one year	-	-
	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (e) OTHER RECEIVABLES (Continued)

The Company endeavors to support cane development, harvest and haulage activities undertaken by independent farmers, harvesters, transporters or their organizations owing to their criticality for the continuity of milling operations. The Company supplies them with farm inputs, fuel and other items for cash or on credit and maintains current accounts for these transactions and recovers debit balances from any monies payable to them for cane purchased or services received from them. Directors have made provision for amounts whose recovery have become uncertain.

24 TAX RECOVERABLE

	2020/21 Kshs	2019/2020 Kshs
At beginning of the year	15,183,641	15,183,641
Income tax charge for the year (note 16)	-	-
Under/(over) provision in prior year/s (note 16)	-	-
Income tax paid during the year	-	-
At end of the year	<u>15,183,641</u> =====	<u>15,183,641</u> =====

This tax recoverable amount includes instalment tax paid, withholding tax on interest income, and advance tax on commercial vehicles paid on different dates in the past years but which the Company has not been able to recover because it has recorded losses over those years. The amount is recoverable from future corporation tax when the Company posts profit.

26 BANK AND CASH BALANCES

	2020/21 Kshs	2019/2020 Kshs
Cash at bank	(53,632,583)	11,704,444
Cash in hand	995,364	359,567
Sub total	<u>(52,637,219)</u>	<u>12,064,011</u>
Bank Overdraft	(1,500)	(1,501)
Total	<u>(52,638,719)</u> =====	<u>12,062,510</u> =====

The bulk bulk of cash at bank was held at Kenya Commercial Bank, the Company's main bankers. The net negative balance was basically a cash book balance and not a bank account balance. This is attributable mainly to routine cane and transport cheques prepared during the last month of the financial year but had not been released to the payees by year end date. The make - up of bank balances and short term deposits is as follows:

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26 BANK AND CASH BALANCES (Continued)

Detailed analysis of the cash and cash equivalents

Financial Institution	Account number	2020/21 KShs	2019/2020 KShs
a) Current account			
KCB Bank Kisumu Main Account	1103790307	(1,500)	(1,500)
KCB Bank Kisumu Project Account2	1180995716	(85,161,657)	6,811,924
KCB Bank Kisumu Project Account1	1112122478	(0)	(0)
KCB Bank Kisumu Chemelil Academy Account	1103794930	4,673,028	1,713,513
Cooperative Bank Kisumu Main Account	01120054662900	24,931,274	552,973
Cooperative Bank Kisumu Project Account	01120054662901	854,389	854,389
Cooperative Bank Kisumu Health Ctr Account	01160614981500	12,386	12,386
Cooperative Bank Kisumu Chemelil Academy-PTA		1,059,498	1,759,258
Sub- total		(53,632,583)	11,702,944
b) Staff car loan/ mortgage			
Kenya Com. Finance Comapny		-	(0)
Saving And Loan(Kenya) Ltd		-	(1)
Sub- total		-	(1)
c) Others(specify)			
Cash in transit		-	-
cash in hand		995,364	359,567
Sub- total		995,364	359,567
Grand total		(52,637,219)	12,062,510

27 ORDINARY SHARE CAPITAL

	2020/2021 Kshs	2019/2020 Kshs
Authorised:		
10,579,581 ordinary shares of Kshs.20 par value each	211,591,620	211,591,620
Issued and fully paid:		
10,579,581 ordinary shares of Kshs.20 par value each	211,591,620	211,591,620

The total number of authorized ordinary shares is 10,579,581 (2020-10,579,581) with a par value of Kshs,20 each. Issued and fully paid ordinary shares, which have a par value of Kshs.20, carry one vote per share and a right to dividend.

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28 REVALUATION RESERVE

The revaluation reserve relates to the revaluation of freehold land and buildings, factory plant and machinery, agricultural machinery and implements and motor vehicles. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred income tax to retained earnings. Revaluation surpluses are not distributable. There was no movement during the year.

29 RETAINED LOSS

The retained loss represents accumulated loss incurred as a result of operating and financial challenges that the Company has grappled over the years when the industry faced turbulence. Note 41 provides detailed information on current efforts towards a turnaround of the situation and the future outlook.

30 PRIOR YEAR ADJUSTMENT

The prior year adjustment on returned earnings of Kshs. 27,153,928 has been made to correct an error that occurred while estimating the fair value less point of sale cost of consumable growing nucleus estate cane and the fair value gain on cane valuation as at 30th June 2020.

The Company estimates the fair value of its growing consumable sugarcane as the product of estimated yield in tonnes of standing cane at its present age and the prevailing cane price less point of sale cost. The yield is estimated as the product of the area covered by the standing cane in hectares, the age of cane in months and the average cane yield per hectare per month (TCHM).

A valuation model which uses above base formula has been developed on excel spreadsheet for valuing the Company's plantation every year end and has been so used since 2017/18. The model contains a list of all cane fields within the nucleus estate identified by field number and hectareage. It is updated with cane inventory records in terms of the variety, cycle and age of cane standing in each field at each year end. Using this data, the prevailing cane price and the TCHM for the period obtainable from Nucleus Estate section, the fair value of growing consumable cane is estimated. In addition, data on cost of cane development is during the period is obtained and the net book value cane bearer plant is determined.

However, an error occurred in the year 2019/2020 whereby the formula inadvertently picked cane age and hectareage data from wrong columns within the worksheet leading to overstatement of the value of growing cane and the fair value gain on valuation as follows:

Description	Cost of harvested (KShs)	Fair value Gain/(Loss) KShs	Fair value of Growing Cane (KShs)
As corrected in July 2020	16,028,277	90,558,785	98,903,040
As stated in June 2020	8,672,762	110,357,198	126,056,968
Prior year adjustment	7,355,515	(19,798,413)	(27,153,928)

To correct the error, an adjustment of Kshs 27,153,928 has been made to the opening retained earnings and opening growing consumable cane balance. Prior year comparative figures of growing consumable cane, fair value gains on biological assets and cost of cane from Nucleus Estate have been restated as per note 7 and note 21 (a).

This particular error occurred in the year ended 30 June 2020 only and had not recurred in other years.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 BORROWINGS

Description	2020/2021		2019/2020	
	Principal Kshs	Interest Kshs	Principal Kshs	Interest Kshs
Balance at beginning of the year	2,641,045,556	941,696,959	2,650,995,339	905,000,000
External borrowings during the year	-	-	-	-
Domestic borrowings during the year	-	78,000,260	5,032,440	37,191,700
Repayments of external borrowings during the year	-	-	-	-
Repayments of domestic borrowings during the year	(14,128,684)	-	(14,982,223)	(56,000,000)
Exchange rate gains/(losses) on revaluation of borrowings	-	-	-	-
Balance at end of the year	2,626,916,872	1,019,697,219	2,641,045,556	941,696,959
Less: Amounts due with one year (current portion)	-	-	14,128,684	-
Amounts due after one year (non-current portion)	2,626,916,872	1,019,697,219	2,626,916,872	941,696,959

The analyses of both external and domestic borrowings are as follows:

	2020/2021 Kshs	2019/2020 Kshs
External Borrowings		
Dollar denominated loan	-	-
Sterling Pound denominated loan	-	-
Euro denominated loan	-	-
	<u>-</u>	<u>-</u>
Domestic Borrowings		
Kenya Shilling loan from Commodities Fund	(2,586,916,872)	2,586,916,872
Kenya Shilling loan from State Department of Crop Development	(40,000,000)	40,000,000
Kenya Shilling loan from KCB Bank	-	14,128,684
Kenya Shilling loan from Diamond Trust Bank	-	-
	<u>(2,626,916,872)</u>	<u>2,641,045,556</u>
Total balance at end of year	(2,626,916,872)	2,641,045,556

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 BORROWINGS

The Company received Kshs.40,000,000 from State Department of Crop Development in May 2017 as part of liquidity support to pay part of cane arrears then owed to farmers. This has been presented as unsecured non-current loan refundable with no interest.

The Borrowings from Commodity Fund are secured by Debenture for Kshs.1,554,487,912 over the Company land and buildings L.R. No.1611/4, 1612/4 and 11840 located at Muhoroni Sub County ranking pari passu with KCB Bank Kenya Limited.

At close of the year, the Company had undrawn banking facility from KCB Bank Kenya Limited of Kshs.145,000,000 (2020-Kshs. 130,869,816). The banking facility is a composite one available for term loans, bank overdraft, bank guarantees and letters of credit. The banking facility is secured by legal charges over land and buildings L.R. No.1611/4, 1612/4 and 11840 ranking pari passu with Commodities Fund.

During the year, the Company received no direct funding from the Government of Kenya (2020-Kshs.74,541,179) like it did in the previous year. The previous year's funding was a grant that the government paid directly to farmers as part of liquidity support to the Company in defraying arrears owed to farmers for sugarcane delivered to the factory.

The Company is in default on principal loan repayments of its loan facilities. Although both the Commodities Fund and the State department of Crop development have previously written to the Company demanding settlement of the loans due to them from the Company, these demands have been neutralized by the ongoing government of Kenya's initiatives towards privatization of the Company alongside other public sugar mills which includes write off the Company's long-term debts.

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

	2020/2021 Kshs	2019/2020 Kshs
Accelerated capital allowances	XXX	(7,398,393)
Revaluation surplus	XXX	116,040,418
Biological assets		(35,607,179)
Tax losses carried forward	(XXX)	(61,075,699)
Provisions for liabilities and charges	(XXX)	(11,959,147)
Net deferred tax liability	XXX	-

The movement on the deferred tax account was as follows:

	2020/2021 Kshs	2019/2020 Kshs
Balance at beginning of the year	XXX	(1,094,599,329)
Credit to revaluation reserve	(XXX)	116,040,418
Deferred biological assets		(35,607,179)
Under provision in prior year	XXX	-
Income statement charge/(credit)	XXX	(7,398,393)
Balance at end of the year	XXX	(1,021,564,483)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 DEFERRED INCOME

	2020/2021 Kshs	2019/2020 Kshs
Prepaid sugar sales	122,511,511	99,882,408
Prepaid molasses sales	2,037,801	-
	<u>124,549,312</u>	<u>99,882,408</u>
	=====	=====

33 TRADE AND OTHER PAYABLES

	2020/2021 Kshs	2019/2020 Kshs
Trade payables - cane	336,393,196	279,278,454
Trade payables - creditors	287,096,916	339,787,069
Accrued expenses-payroll	1,072,264,885	926,379,003
Accrued expenses-staff	5,359,093	2,976,405
Other payables	134,849,930	136,912,569
	<u>1,835,964,021</u>	<u>1,685,333,499</u>
VAT payable	948,502,616	908,556,264
PAYE payable	799,207,900	720,796,003
WHT payable	10,853,325	10,734,144
SDL payable	474,109,867	474,109,867
ML payable	4,269,365	819,871
Accrued tax penalties & interest	1,149,275,912	995,682,233
	<u>3,383,218,985</u>	<u>3,110,698,381</u>
	<u>5,219,183,006</u>	<u>4,796,031,880</u>
	=====	=====

34 RETIREMENT BENEFIT OBLIGATIONS

The Company operates a defined contributory scheme for all managerial employees engaged on permanent terms. Managerial employees engaged on contract terms are entitled to gratuity payment. Unionisable employees are entitled to retirement benefits based on years of service. The liability at the end of the year was as follows:

	Gratuity Kshs	Long term Service dues Kshs	Total Kshs
At 1st July 2020	13,365,184	229,117,145	242,482,329
Provision for the year	8,495,925	3,756,120	12,252,045
Paid during the year	(7,347,892)	(41,244,022)	(48,591,914)
At 30th June 2021	<u>14,513,217</u>	<u>191,629,243</u>	<u>206,142,460</u>
	=====	=====	=====
At 1st July 2019	11,251,100	226,377,980	237,629,079
Provisions for the year	2,114,084	2,739,165	4,853,250
Paid during the year	-	-	-
At 30th June 2020	<u>13,365,184</u>	<u>229,117,145</u>	<u>242,482,329</u>
	=====	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 RETIREMENT BENEFIT OBLIGATIONS

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs200 per employee per month.

35 PROVISION FOR LEAVE PAY

	2020/2021 Kshs	2019/2020 Kshs
Balance at beginning of the year	21,922,108	15,751,002
Additional/ (Reduction of) provision at end of year	(1,193,098)	7,133,611
Leave paid out or utilised during the year	-	(962,505)
Balance at end of the year	20,729,011	21,922,108

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

36 DIVIDENDS PAYABLE

The balance of dividends payable relates to unclaimed dividends of 2001/2002 financial year, payable to ordinary shareholders. The balance as at 30th June 2021 was Kshs. 9,699,787 (2020: Kshs. 9,699,787).

37 NOTES TO THE STATEMENT OF CASH FLOWS

	2020/2021 Kshs	2019/2020 Kshs
(a) (a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(549,280,557)	(694,566,052)
Depreciation	154,804,063	154,356,102
Nucleus Estate cane	88,637,038	68,477,125
Fair value (gain)/loss on valuation of biological assets	(38,569,783)	(90,790,785)
(Gain)/loss on disposal of fixed asset	6,174,775	2,135,094
Earned interest income	(518,630)	(3,015,723)
Accrued interest expense	78,000,260	37,191,750
Interest and penalties on tax and pension arrears	188,695,845	174,883,311
Retirement benefit expenses	12,252,045	4,853,250
Staff leave provision	(1,193,098)	7,133,611
Bad and doubtful debt	21,017,688	6,011,667
Accrued expenses	(44,526,430)	5,032,440
Operating profit/(loss) before working capital changes	(84,506,785)	(328,298,209)
(Increase)/decrease in inventories	(54,934,250)	54,380,604
(Increase)/decrease in trade and other receivables	(116,719,158)	(25,401,654)
Increase/(decrease) in trade and other payables	243,123,745	319,237,017
Cash generated from/(used In) operations	(13,036,447)	19,917,757

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 NOTES TO THE STATEMENT OF CASH FLOWS

	2020/2021 Kshs	2019/2020 Kshs
(b) Analysis of changes in loans		
Balance at beginning of the year	3,582,742,515	2,650,995,339
Receipts during the year	0	5,032,440
Repayments during the year	(14,128,684)	(14,982,223)
Repayments of previous year's accrued interest	0	-
Foreign exchange (gains)/losses	0	-
Accrued interest	78,000,260	37,191,750
Balance at end of the year	3,646,614,091	2,678,237,305
(c) Analysis of cash and cash equivalents		
Short term deposits	-	-
Cash at bank	(53,634,083)	11,702,943
Cash in hand	995,364	359,567
Balance at end of the year	(52,638,719)	12,062,510
(d) Analysis of Interest paid		
Interest on loans (note 14)	78,000,260.2	37,191,750
Interest on bank overdraft (note 14)	0	-
	78,000,260	37,191,750
Balance at beginning of the year	941,696,959	905,068,697
Balance at end of the year (note 35(b))	(1,019,697,219)	(941,696,959)
Interest paid	-	563,488
(e) Analysis of dividend paid		
Balance at beginning of the year	9,699,787	9,699,787
Paid during the year	-	-
Balance at end of the year	(9,699,787)	(9,699,787)
Dividend paid	-	-

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

38, RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of the Company, holding 100% of the Company's equity interest.

Other related parties include:

- i) The Parent Ministry;
- ii) County Government of Kisumu
- iii) Key management;
- iv) Board of directors;

(b) Transactions with related parties

	2020/2021 Kshs	2019/2020 Kshs
a) Grants from the Government		
Grants from National Govt	-	74,541,179
Total	<u>-</u>	<u>74,541,179</u>
	=====	=====
b) Key management compensation		
Directors' emoluments	87,000	4,342,742
Compensation to the CEO	4,723,263	9,158,622
Compensation to key management	3,320,232	3,320,232
Total	<u>8,130,495</u>	<u>16,821,596</u>
	=====	=====

39 CAPITAL COMMITMENTS

Capital commitments at the year- end for which no provision has been made in these financial statements are:

	2020/2021 Kshs	2019/2020 Kshs
Amounts authorised and contracted for	-	-
Amounts authorized but not contracted for	-	-
Less: Amounts included in Work in progress	22,252,033	1,235,542
	<u>22,252,033</u>	<u>1,235,542</u>
	=====	=====

The capital commitments relate primarily to immature bearer plant which is plant cycle sugarcane of 0 to 6 months.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 CONTINGENT LIABILITIES

The Company is a defendant in various litigations and claims which arose in the ordinary course of business and whose amounts are shown below:

	2020/2021 Kshs	2019/2020 Kshs
Legal claims against the Company	433,207,585	660,000,000
	<u>433,207,585</u> =====	<u>660,000,000</u> =====

A provision of 10% (2020: 10%) of this amount has been made in the books as the directors believe, based on information currently available that the ultimate resolution of these legal proceedings is not likely to have an effect in the operations of the Company that is materially at variance with the amount.

41 GOING CONCERN

The Company's current liabilities exceeded its current assets by 5,580 million as at 30th June 2021 (2020: Kshs 4,742 million). In addition, the Company incurred a loss of Kshs. 549 million during the year (2020: Kshs 694 million) bringing the cumulative loss to Kshs 8,296 million by 30th June 2021. The bulk of current and non-current liabilities are owed to Kenya Revenue Authority and Commodities Fund respectively. The Company has been inconsistent in remittance of taxes and defaulted in repayment of loans due to cash flow constraints arising from operations below capacity because of sugarcane shortage and factory inefficiency following 8 years of operation without any major maintenance.

As stated in note 31, previous settlement demands by Commodities Fund has been neutralized by the government of Kenya's initiatives towards privatization of the Company alongside other public sugar mills. The privatization process involves debt write offs and waiver of tax penalties and interest on outstanding taxes to restructure and make the Companies' balance sheets attractive to prospective investors. The government has not revoked a letter issued to KRA by National Treasury in December 2015 putting on hold tax claims amounting to Kshs.1.9 billion until completion of privatization process. Privatization is also expected to result into injection of investment funds into the factory to enhance efficiency of operations.

Meanwhile, sugarcane development and husbandry has greatly improved following government intervention in 2019/2020 by paying farmers arrears. As a result, cane supply to the factory during the year was 3.5 times higher than previous year and was the highest in 7 years. Consequently, the Company posted a reduced loss and forecasts even better performance the following year. This has been enhanced by the recent directive by the president of Kenya during Mashujaa day celebrations of 20th October 2021 that Kshs.1.5 billion be allocated towards supporting maintenance of Kenyan public sugar factories and payment of farmers arrears.

If above interventions are fully implemented, the uncertainty as to the Company's ability to continue as a going concern to realize its assets and discharge its liabilities in the normal course of business.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

42 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history. The Company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

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

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

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2021				
Receivables from exchange transactions	486,411,187	39,682,008	446,729,179	446,729,179
Receivables from non-exchange transactions	305,687,743	244,576,345	61,111,399	61,111,399
Bank balances	(53,632,583)	(53,632,583)	0	0
Total	738,466,348	230,625,770	507,840,577	507,840,577
At 30 June 2020				
Receivables from exchange transactions	477,642,668	33,832,984	443,809,684	443,809,684
Receivables from non-exchange transactions	327,481,780	266,370,381	61,111,399	61,111,399
Bank balances	11,704,444	11,704,444	0	0
Total	816,828,891	311,907,809	504,921,082	504,921,082

(i) Credit risk (Continued)

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

The Company has significant concentration of credit risk on amounts due from farmers in relation to amounts advanced for cane development. Much of this has been provided for.

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

42 FINANCIAL RISK MANAGEMENT

(I) Liquidity risk management

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

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

	Less than 1 month Kshs	Between 1-3 months Kshs	Over 5 months Kshs	Total Kshs
At 30 June 2021				
Trade payables	53,913,225	42,047,912	527,528,976	623,490,112
Tax Arrears	45,443,971	16,985,659	2,171,513,442	2,233,943,073
Other Payables			34,849,930	134,849,930
Current portion of borrowings				0
Provisions	xxx	xxx	xxx	1,170,004,923
Deferred income	xxx	xxx	xxx	124,549,312
Employee benefit obligation	xxx	xxx	xxx	206,142,460
Total	xxx	xxx	xxx	4,492,979,811
At 30 June 2020				
Trade payables	Xxx	xxx	xxx	619,065,522
Tax Arrears				2,115,016,148
Other Payables				136,912,569
Current portion of borrowings	Xxx	xxx	xxx	14,128,684
Provisions	Xxx	xxx	xxx	1,017,604,341
Deferred income	Xxx	xxx	xxx	99,882,408
Employee benefit obligation	Xxx	xxx	xxx	242,482,329
Total	Xxx	xxx	xxx	4,245,092,002

(II) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

42 FINANCIAL RISK MANAGEMENT (Continued)

(III) Market risk (Continued)

a) Foreign currency risk

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

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

	Ksh Kshs	Other currencies Kshs	Total Kshs
At 30 June 2021			
Financial assets			
Cash	31,390,821	-	31,390,821
Debtors	823,681,904	2,438,392	826,120,296
	855,072,725	2,438,392	857,511,117
Financial Liabilities			
Trade and other payables	5,239,311,043	6,097,567	5,245,408,610
Borrowings	3,646,614,091	-	3,646,614,091
	8,892,022,701	6,097,567	8,892,022,701

The Company manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

(III) Market risk (Continued)

b) Interest rate risk

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

Management of interest rate risk

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

42 FINANCIAL RISK MANAGEMENT (Continued)

iv) Capital Risk Management

The objective of the Company's capital risk management is to safeguard its ability to continue as a going concern. The Company capital structure comprises of the following funds:

	2020/2021	2019/2020
	Kshs	Kshs
Revaluation reserve	4,614,544,226	4,614,544,226
Retained earnings	(8,295,955,399)	(7,746,674,841)
Capital reserve	211,591,620	211,591,620
Total funds	(3,469,819,553)	(2,920,538,995)
Total borrowings	3,646,614,091	3,568,613,831
Less: cash and bank balances	52,638,719	(12,062,510)
Net debt/(excess cash and cash equivalents)	3,699,252,810	3,556,551,321
Gearing	1612%	559%

43 INCORPORATION

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

44 EVENTS AFTER THE REPORTING PERIOD

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

45 CURRENCY

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

