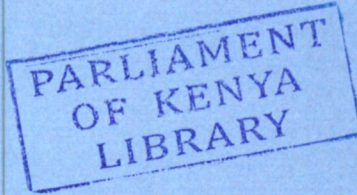


REPUBLIC OF KENYA



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OFFICE OF THE AUDITOR-GENERAL



REPORT



OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR
ENDED 30 JUNE 2017**



Chemelil Sugar Company
Reports and Financial Statements
For the year ended June 30, 2017

CHEMELIL SUGAR COMPANY
P. O. Box 177 - 40107 MUHOROBI,
OR P. O. BOX 1649 - 40100 KISUMU,
KENYA.
Tel: 02-2031883/4/5/7 or 0722-269798
Fax: 020 - 2031886
Email: md@chemelilsugar.co.ke



CHEMELIL SUGAR COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

**CHEMELIL SUGAR COMPANY LIMITED
FINANCIAL STATEMENTS**

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COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. Benson Owiti
Mr. Gabriel Nyangweso
Permanent Secretary, Ministry of Agriculture
Permanent Secretary, Ministry of Finance, Treasury
Development Bank of Kenya
Agricultural Development Corporation(K) LTD
VIVO Energy(K) LTD
Eng. Ezra Odhiambo
Ms. Irene Onunga
Ms. Marjorie Wasonga Nangulu
Mr. George Oballa

- Independent Director
- Managing Director
- Alternate, Ms. Mary Karanja
- Alternate, Mr. Kennedy Odhiambo
- Alternate, Mr. Jacob Mananda
- Alternate, Mr. Richard Aiyabei
- Alternate, Ms. Naomi Assumani
- Independent
- Independent
- Independent
- Independent

CHIEF OFFICERS

Mr. Gabriel Nyangweso
Mr. Steven O. Aluoch
Mr. Joel Kiplagat
Mr. Elijah Chelagat
Mr. Moffat Omondi
Mr. Titus Koech
Mr. Henry Okeyo
Mr. Amos Kosgei

- Managing Director
- Head of Finance(Ag)
- Head of Agriculture(Ag)
- Head of Factory(Ag)
- Head of Human Resources(Ag)
- Head of Marketing (Ag)
- ICT Manager
- Internal Audit Manager(Ag)

REGISTERED OFFICE

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

INDIPENDENT AUDITOR

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

On behalf of:

The Auditor-General
P. O. Box 30084 - 00100
NAIROBI.

COMPANY SECRETARY

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

CORPORATE INFORMATION (Continued)

PRINCIPAL BANKERS

Kenya Commercial Bank Limited
P.O. BOX 17 - 40100

KISUMU




Co-operative Bank of Kenya Limited
P.O. BOX 1511 - 40100
KISUMU




LEGAL ADVISORS


Migos Ogamba & Company
P. O. Box 3842 - 40020
KISUMU

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

THE BOARD OF DIRECTORS





DIRECTOR'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
<p>1. Mr. Benson Odhiambo Owiti</p>  <p>Independent Director</p>	<p>Mr. Owiti aged is aged 44 years .He is a holder of Bachelor of Education (Science) from Kenyatta University and Diploma in Mass Communication (ICM) from East Africa School of Media studies. He has worked for Royal Media Services. He currently works for Universal Community Development Foundation-Migori as a programs Director.He is a consultant on media and governance.</p>
<p>2. Mr.Gabriel Nyangweso</p> <p>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 on an acting capacity from 5th May 2017.</p>
<p>3. Ms. Irene Adhiambo Onunga</p>  <p>Independent Director</p>	<p>Ms. Onunga is aged 36 years. She holds a Diploma in Business Management from Kenya Institute of Management and Currently pursuing Bachelors of Business Management in Nazareen University.</p>
<p>4. Ms. 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>5. Mr. George A. O. Oballa</p>  <p>Independent Director</p>	<p>Mr. Oballa, aged 47 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 at Forefinance/Scopelnaight.</p>
<p>6. Eng. Ezra O. Odhiambo</p>	<p>Eng. Ezra Odhiambi is an independent Director.</p>
<p>7. Mr. Jacob Mananda Alternate Director</p>	<p>Mr Mananda represents Development Bank of Kenya.</p>
<p>8. Mr. Kennedy Odhiambo</p>  <p>Alternate Director</p>	<p>Mr. Odhiambo represents the National Treasury as per the state Corporation Act. Alternate to Dr. Kamau Thugge, Principal Secretary, The National Treasury.</p>
<p>9. Mr. Richard Aiyabei</p>  <p>Alternate Director (ADC)</p>	<p>Mr. Richard Aiyabei aged 50 years is a holder of MSc. Degree in Agronomy from University of Eldoret, BSc. 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 Director (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>10. Ms. Naomi Assumani Alternate Director Vivo Energy</p>	<p>Ms. Assumani represents Vivo Energy.</p>
<p>11. Ms. Mary Karanja</p>  <p>Alternate Director Ministry of Agriculture</p>	<p>Ms. Karanja represents Ministry of Agriculture.</p>

THE MANAGEMENT TEAM

<p>MANAGER'S NAME</p>	<p>KEY QUALIFICATIONS AND EXPERIENCE</p>
<p>1. Mr. Gabriel Nyangweso Managing Director (Ag)</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 on an acting capacity from 5th May 2017.</p>
<p>2. Mr. Elijah Chepyegon Chelagat Head of Factory (Ag)</p>	<p>Aged 46 years, Mr. Chelagat holds a BSc. Mechanical Engineering Degree from Jomo Kenyatta University of Agriculture and Technology. He has training on Industrial Relations Management and Supervisory Skills Management, Consequence Management, Job Evaluation, and Boilers and Steam Systems by GEF-KAM. Prior to his current appointment, Mr. Chelagat was the Company's Engineering Manager-Mechanical a position he rose to since joining the Company as a Management Trainee in 1998. He is a registered member of Engineers Board of Kenya. He was appointed to his current post in June 2016.</p>
<p>3. Mr. Steven Oduor Aluoch Head of Finance (Ag)</p>	<p>Mr. Aluoch is aged 43 years. He is a holder of Bachelor of Commerce (Accounting option), from Catholic University of East Africa, and Certified Public Accountant CPA (K). He is a member of the Institute Certified Public Accountants of Kenya (ICPAK). He was appointed to the position of Head of Finance in December 2016 in acting capacity.</p>

<p>4. Mr. Joel Kiplagat Head of Agriculture (Ag)</p>	<p>Mr.Kiplagat is aged 58 years. He is a holder of Diploma in Agriculture from Egerton University and Certificate in Sugarcane Agronomy from RASTIC, Mauritius and a certificate in Rice cultivation from Ibaraki, Japan. He was appointed to the position of Head of Agriculture in May 2017 on acting capacity.</p>
<p>5. Ms. Jacqueline Kotonya</p>  <p>Quality Assurance Manager</p>	<p>Ms. Kotonya aged 43 years holds a BSc.Chemistry Degree from University of Nairobi. She has previously worked for Insteel limited as a Quality Assurance coordinator and Unga limited as a Quality Controller. Her Memberships include Kenya Association of Manufactures (KAM), Kisumu Chapter, African Women in Science and Engineering (AWSE), Environmental Institute of Kenya(EIK). She was appointed to her current position in March 2011.</p>
<p>6. Mr. Moffat Omondi Head of Human Resource (Ag)</p>	<p>Mr. Omondi holds a Bachelor of Science degree Bsc. Chemistry (U.O.N),International Certificate in Chemical Control (Mauritius),Dip. In Human Resource Management (KIM) and Cert. In Monitoring and Evaluation (KIM). He is Associate Member of Institute of Human Resource. He was appointed to the position of Head of Human Resource in May 2017 on acting capacity.</p>
<p>7. Mr. Japheth Ojwang Supply Chain Manager (Ag)</p>	<p>Mr. Ojwang is aged 40 years. He holds a Bachelors of Business Management degree in Purchasing and Supplies from Moi University and Diploma in Business Administration from Kisumu Polytechnic. He is a member of Kenya Institute of Supplies Management (KISM) and Chartered Institute of Procurement and Supply (CIPS). He was appointed to this position in May 2017.</p>
<p>8. Mr. Henry Okeyo</p>  <p>ICT Manager</p>	<p>Mr. Okeyo is aged 60 years. He holds a Master of Science, Meteorology degree from University of Nairobi and a Bachelor of Science (Maths and Physics) from University of Nairobi. Mr. Okeyo has training in Effective IT Project Management, Data Communication Networks, Structured Systems Analysis and Design, and Customer Information Control Systems (CICS) He was appointed to the position of ICT manager in 1997.</p>
<p>9. Mr. Amos Kosgei</p>  <p>Internal Audit Manager (Ag)</p>	<p>Mr. Amos Kosgei is aged 40. He holds a Bachelor of Commerce Degree from Catholic University of Eastern Africa and is a Certified Public Accountant (CPA (K)). He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has training on ISO 14001-2004 implementation , Public Procurement and Disposal Act and Information Systems Security. He is currently the secretary to the Integrity Committee of the Company. He was appointed the Internal Audit Manager in acting capacity in August 2015.</p>
<p>10. Mr. Titus Koech</p>  <p>Head of Marketing (Ag)</p>	<p>Mr. Koech is aged 59 years. He holds a part II Certificate in Certified Public Accountants of Kenya. Since joining the Company in 1995, Mr. Koech has held Various Accounting positions to his current appointment. He was appointed as Head of Marketing (Acting) on August 2012.</p>

CHAIRMANS REPORT

It is my pleasure once again to report the performance of Chemelil Sugar Company for the year ended 30 June 2017 as follows.

OVERVIEW

The Company operations in the year under review was met by myriad challenges and as a result operating targets and parameters were not achieved. The major constraining factor was cane shortage biting the zone caused by poaching of cane in the zone by other millers as a result of lack of restrictions. The other challenge was breakdown of key machinery in the factory due ageing plant. This lead to inefficient factory operations which worsened conversion ratios. As a consequence of these, the company's profitability and cashflow were adversely affected.

OPERATIONS

Factory operations in the first quarter were affected by breakdowns in factory and bagasse handling equipment thus throughput and conversion ratios were adverse affected. This necessitated for factory maintenance which took place in the better part of the second quarter to address the various factory breakdown challenges. Factory operations continued in the third quarter after factory rehabilitation which concluded in mid-december though cane shortage led to cane accumulation stoppages.

The fourth quarter had its share of hiccups, the operations came to a halt for one week when unionisable employees went on strike citing various grievances between them and management and as a result operations halted and farmers stopped supply of sugarcane. It took the intervention of the Permanent Secretary in the Ministry of Agriculture, Livestock and Fisheries to normalize the situation and as a result there were changes in key management positions. Arising from farmers' withdrawal to supply cane coupled with the biting cane shortage within the Kenya sugar industry during the fourth quarter. Factory operations were adversely affected leading to lengthy stoppages for cane accumulation.

The cumulative impact of all these operations from quarter one to quarter four was a loss of Ksh 855 Million.

FUTURE PROSPECTS

The Company's 5- year strategic plan (2012/13 - 2016/2017) major objective was to avail cane supply of 580,000 tons in 2012/2013 and increase progressively to 840,000 tons in the year 2016/2017 by the end of the 5- year period. Cane yield is also projected to increase from 58TCH to 68 TCH. Though these targets were not achieved, it is envisaged that the next cycle of strategic planning will mitigate the inadequate cane availability and supply to the factory. The aim of the strategic plan is to achieve optimal operational capacity while at the same time widening the Company's revenue base through diversification into new product lines as we move into a fully liberalized economy.

The COMESA safeguard measures extended by two years to Feb 2019. The Company's improved performance levels should enable it compete, 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 expansion requirements and irrigation project is being enhanced to increase cane yield. The cane development program will continue into the next year where a further 3,600 hectares are targeted.

The privatization of the five Government owned sugar mills is on-going. This process is expected to enhance competitiveness, profitability and sustainability of the Company.

BUSINESS REVIEW

The company continues to contract farmers for cane supply. Improvement in cane availability is being done through planting of high sucrose and fast maturing cane within the nucleus estate and extension services to farmers. Continued support with farm inputs and implements to farmers is on-going. All these efforts are aimed at improving the quantity and quality of the cane being milled. 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 is also keen on its corporate communication policy to ensure it has support from all stakeholders.

PERFORMANCE CONTRACT

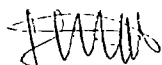
The company entered into a negotiated performance contract with the Government of Kenya for the year 2016/2017 by setting targets in line with the Strategic plan 2012/2013-2016/2017 and the Approved Budget for 2016/2017. The Company did not achieve its profitability target given the conditions it operated in .However other performance indicators were achieved except financial indicators in the year under review. This was as a result of the commitment of the Company's Board, Management and members of staff to continually improve performance and productivity of the Company. As a team we are positive and strongly believe in continued improved performance to achieve and surpass the boundaries of success.

DIVIDENDS

The company remains committed in giving a return on investment to all the shareholders as its primary objective (Maximization of Shareholders' fund) through payment of dividends. However, due to financial constraints the company was not in a position to pay dividends. With all the measures being put in place, this is likely to change and the dividends shall be paid accordingly.

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 materials suppliers, the Kenya Sugar Directorate 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. The Board is optimistic that we shall all improve our performance, meet our targets and better the future for the Company.



CHAIRMAN

REPORT OF MANAGING DIRECTOR

INTRODUCTION

It is my pleasure once again to report on the performance of Chemelil Sugar Company Limited for the year ended 30 June 2017

OVERVIEW

The Company in the year under review experienced various challenges in its operations which include; Factory breakdowns which adversely affected throughput and conversion ratios, poaching of cane from the zone by other millers resulting in cane shortage, low agricultural machinery availability and low cane yields. Due to these constraints, the Company milled 35% of the target cane. These factors affected Companies' revenue generation and thus cash inflows

PERFORMANCE REVIEW

i. Operations

The factory milled a total of 214,374 tons (2016 – 358,337 tons) of cane in the year under review. The Nucleus Estate supplied 43,046 tones (2016- 53,626 tons) of cane, representing 20% of the total cane supply while the farmers supplied 171,328 tons (80%) of cane worth KES 0.66 billion.

All the cane supplied was milled at a TC/TS ratio of 15.23 to produce 14,074 (2016 – 22,332) tons of sugar, the production represents a 36% decrease compared to the previous year. Sugar quality remained high as the Company observed to comply with the Kenya Bureau of Standards (KEBS) Diamond Mark of Quality in both mill white and brown sugars.

The favourable price prevailing in the market pushed the average price of cane per ton of cane to Kshs 3,854 (2006- Kshs.3,000) representing a 28% increase. Cane pricing committee was involved in setting minimum cane price based on prevailing ex-factory price of sugar.

Administration cost (Finance & Administration and Human Resource) decreased by 12% which is a reflection of the measures taken by the management on cost management

The mollassess and Sugar prices remained favourable in the market in the year under review. The average price per ton of sugar was Kshs. 98,858 (2006- Kshs.78,340). Due to low production volumes and increased price of cane, the company did not maximise on favourable prices.

ii. Financial Results

The overall performance for the year was an operating loss of KES 856 million arising from cane shortage and factory inefficiencies. This was a 11% increase in the loss recorded as compared to the previous year loss of KES 767 million.

ISO 9001:2008 QUALITY MANAGEMENT SYSTEM

The company currently has a certification in Quality Management Systems- ISO 900:2008 . Under the certification ,four internal audits and one external surveillance audit are carried out every financial year for compliance.
The company has committed to migrate to the new version of Quality Management System – ISO 9001;2015 by June 2018.

APPRECIATION

On behalf of the Management and staff, I wish to express my gratitude to all our stakeholders for their valued support over the period. Key among them include cane farmers who have stood with us during these difficult times and have now redoubled their efforts in cane farming. I also wish to thank our materials suppliers, the Sugar Directorate , contractors , the sugar customers and Ministry of Agriculture,Livestock and Fisheries for their continued support. I take this opportunity to sincerely express my appreciation to the Board for their valued guidance and oversight. Finally, I thank the management and staff for their hard work and continued commitment to the Company.


GABRIEL NYANGWESO
Ag. MANAGING DIRECTOR

STATEMENT OF CORPORATE GOVERNANCE

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

The Board of Directors provides strategic direction to the company through oversight, review and guidance as well as setting the strategic and policy direction so as to realize the objective of shareholders' value maximization.

The Board is made up 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 continues to offer 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 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 deligated authorities and terms of reference. These are are Audit Committee, Finance and Human Resource Committee and Strategy and Technical Committee. The Board Committes meet atleast 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

Ms. Marjorie Nangulu	- Chairperson
Mr. Jacob Mananda	
Mr. Kennedy Odhiambo	
Ms. Naomi Assumani	
Mr. Ezra Odhiambo	
Mr. Benson Owiti	
Mr. Peter Rutere	Rep. Inspectorate of State Corporatios

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

Mr. George Oballa	-Chairman
Mr. Richard Aiyabei	
Mr. Kennedy Odhiambo	
Ms. Naomi Assumani	
Ms. Mary Karanja	
Ms. Irene Onunga	
Mr. Gabriel Nyangweso	Mananging Director
Mr. Peter Rutere	Rep. Inspectorate of State Corporations

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. Benson Owiti	- Chairman
Mr. Richard Aiyabei	
Mr. Jacob Mananda	
Eng.Ezra Odhiambo	
Ms. Marjorie Nangulu	
Mr. George Oballa	
Ms. Irene Onunga	
Mr. Gabriel Nyangweso	-Managing Director (Ag
Mr. Mary Karanja	
Mr. Peter Rutere	- Rep. Inspectorate of State Corporations

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.

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 .

CORPORATE SOCIAL RESPONSIBILITY(CSR)

The Company recognizes the importance of the community and environment in which it operates and takes deliberate measures to serve and uplift their standards of living. We have created a business model that is not shy about creating benefits for its stakeholders.

In the 2017/2018 Financial Year, the Company engaged in various Corporate Social Responsibility (CSR) programs by offering financial support to diverse projects located within Kisumu and Nandi Counties, which traverse the Company's cane catchment zone. These include orphanages, churches, Community Based Organizations (CBOs), Persons With Disabilities (PWDs)

Health

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

- Compressive 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

The Company has an elaborate school Education programme with an annual budget of over Kshs.70 Million. The Company directly runs two schools (Chemelil Sugar Academy and Sugar School primary) and hosts two other public primary schools (Factory Primary School and Chemelil B 1).

Sports

The Company sponsors a Football Club which participates in the national premier league. 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 competitions.

DIRECTORS REPORT

The directors submit their report together with the audited financial statements of the company for the year ended 30 June 2017 which disclose the state of affairs of the company.

1. BACKGROUND INFORMATION

Chemelil Sugar Company is located along the Awasi-Nandi Hills road in Nyando District of Nyanza province, approximately 50 Kms from Kisumu City. It was established in 1965 as a private limited company and later became a parastatal in 1974.

The Company is under the Ministry of Agriculture, Livestock and Fisheries- State Department of Agriculture. At cabinet level, the Company is represented by the Cabinet Secretary for Agriculture, Livestock and Fisheries, who is responsible for general policy and strategic direction of the Company.

2. PRINCIPAL ACTIVITY

The principal activity of the company is growing of cane and manufacturing of sugar.

3. RESULTS

	2017 Shs	2016 shs
(Loss) before Tax	(856,633,133)	(767,454,578)
Tax	-	-
(loss) for the year	<u>(856,633,133)</u>	<u>(767,454,578)</u>

4. DIVIDEND

The directors do not recommend the declaration of a dividend for the year. (2016 Shs-Nil).

5. DIRECTORS

The directors who held office during the year and to the date of this report are as shown on page 1.

In accordance with the Company's Articles of Association, no director is due for retirement by rotation.

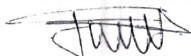
6. INDEPENDENT AUDITOR

The Auditor General is responsible for the statutory audit of the company's books of account in accordance with provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. Section 23 of the Public Audit Act, 2015 empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Accordingly, Matengo and Associates were appointed to carry out the audit on behalf of the Auditor General for the year ended 30 June, 2017.

BY ORDER OF THE BOARD

COMPANY CHAIRMAN



.....2017

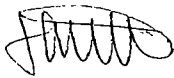
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act (Cap. 486) requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure the company maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.


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

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

Approved by the board of directors on 22 - 12 - 2017 and signed on its behalf by:



.....
CHAIRMAN



.....
MANAGING DIRECTOR

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of Chemelil Sugar Company Limited set out on pages 17 to 43, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows, statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Matengo & Associates, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, except for the effect of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects the financial position of Chemelil Sugar Company Limited as at 30 June 2017 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion, Other Matter Emphasis of Matter sections of my report, based on the procedures performed, I confirm that nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Failure of the Financial Statements to Conform to the Prescribed Format and Applicable Accounting Standards

The National Treasury conducted quality review of Annual Financial Statements of the Company for the year ended 30 June 2017 and presented a report to the management vide AG/FS/1160/8. Vol.1 dated 16 November 2017.

The following were the key issues noted by the National Treasury in the financial statements presented for audit but which management has not amended or explained:

Report of the Auditor-General on the Financial Statements of Chemelil Sugar Company Limited for the year ended 30 June 2017

- i. The corporate governance statement has not disclosed the number of Board meetings held and attendance to those meetings by members; process of appointment and removal of directors; roles and functions of the Board; induction and training; Board remuneration and ethics and conduct.
- ii. The revaluation reserve balance of Kshs. 3,264,419,632 disclosed in Note 15 to the financial statements does not tally with the balance of Kshs.3,140,240,479 reflected in the statement of changes in equity.
- iii. The statement of changes in equity is not referenced to the notes.
- iv. The financial statements do not have detailed disclosures on financial risk management as required by IFRS 7 Financial Instruments Disclosures. The disclosures detail how an entity has managed various financial risks that it is exposed to such as credit risk, liquidity risk and market risk during the period under review.
- v. Critical information on accounting estimates and assumptions namely; recoverability of accounts receivables and useful lives and residual values of depreciated assets have not been disclosed in the financial statements.
- vi. Although the Company has for several years, defaulted on the loan amounting to Kshs. 3,344,641,591 owed to the Kenya Sugar Board, no disclosure has been made in the financial statements to explain consequences for the repayment default provided for in the loan covenants..

2. Bank and Cash Balances

The Company's cash and bank balances decreased from Kshs. 233,134,081 as at 30 June 2016 to Kshs. 15,335,805 as at 30 June 2017. However, the following anomalies were noted in relation to cash management:

- i. Cash- in- hand as at 30 June 2017 includes Kshs.1,230,311 relating to petty cash for the school owned by the Company . However, the authorized float is Kshs.100,000 and further, the petty cash balance of Kshs.1,230,311 was not supported with cashbook records or the Board of Survey report as at 30 June 2017. Further, a separate bank account managed by parents has been set up by the Company management for a programme intended to motivate the school's teachers through extraneous allowance payments. Since the account is not part of the Company's books, it is not clear how the Company will address emerging risks in the event that cash contributions made by parents are spent on activities that do not fall within the programme's mandate.
- ii. Cash in hand includes Kshs.500,000 lost through robbery and theft on cash in transit due to failure to follow the laid down procedures that require management to obit police escort for transport of cash. Therefore the cash and bank balance of Kshs.15,335,805 as at 30 June 2017 is overstated by Kshs.500,000.

- iii. The schedule for cash and bank balance reflects Kshs.16,665,455 while note 25 to the financial statements reflects Kshs. 15,335,805 leading to variance of Kshs.1,329,650 which management has not explained.

Consequently, the accuracy and validity of bank and cash balance of Kshs15,335,805 cannot be confirmed.

3. Inventories

Note 24 to the financial statements reflects stock closing balance of Kshs.298,435,921. However, the value of physical stock of field and factory spares counted at close of the financial year on 30 June 2017 amounted to Kshs.269,779,882 while the ledger balance was Kshs.284,805,847 leading to a variance of Kshs.15,025,965 which management has not explained. Further, included in the closing stock is stock amounting to Kshs.16,403,041 which has however not been accounted for.

Consequently, the accuracy of the inventories balance of Kshs.298,435,921 as at 30 June 2017 cannot not be confirmed.

4. Irregular Sugar Exports

As reported in the previous year, the Company on diverse dates between the months of March and May 2008, irregularly and in contravention of the VAT Act, Cap 476 of the laws of Kenya, sold 118,144 units of 50Kgs bags of sugar valued at Kshs. 256,440,648 net of VAT to three companies ostensibly for export to Southern Sudan. However, the sugar was not exported but was apparently sold in the local market as a result of which, the Kenya Revenue Authority demanded a sum of Ksh. 43,768,675 from the Company in unremitted VAT and penalties, which the Company has indicated was paid to the Authority. No satisfactory explanation has been provided by the Company on how sugar meant for export ended up in the local market. Although the issue was subsequently handed over to the Ethics and Anti-Corruption Commission for investigation, the matter has not been concluded to date.

5. Understatement of Statutory Liabilities

As previously reported, the company has been paying, albeit at a slower rate than expected, statutory liabilities due to the Kenya Revenue Authority and the Kenya Sugar Board. In the year under review, the management has included Kshs.1,218,861,326 (2016 – Kshs.1,039,337,022) of these liabilities in the trade and other payables balance disclosed under Note 26 to the financial statements. However, management has not quantified and incorporated in these financial statements interest and penalties due on the outstanding balance. Therefore the trade and payables balance does not include all the payables owed by the Company.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Chemelil Sugar Company Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements and internal control in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Doubtful Going concern Status of the Company

During the year under review, the Company's performance continued to deteriorate as it incurred a loss of Kshs.856,633,133 (2015/16-loss Kshs.767,454,578) which brought its accumulated losses to Kshs.5,236,573,830. Further, as at 30 June 2017, the Company's current liabilities of Kshs.3,038,831,374 exceeded current assets of Kshs.636,285,894 leading to negative working capital of Kshs.2,402,545,480 as at 30 June 2017. Evidently, the company is technically insolvent and its continued operation as a going concern is therefore dependent upon financial support from the National Government and creditors. .

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion, Other Matter and Emphasis of Matter sections, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

Misappropriation of Factory Loan Proceeds

The Company in f 2015/2016 financial year received a total of Kshs.248,218,180 from the Sugar Directorate out of a sum of Kshs.265,000,000 budgeted for annual maintenance. However, as shown in the table below, the management spent a total Kshs.42,772,835 on unauthorized vote heads without approval from the Board. This was not only irregular but also prevented the Company from attaining the objective for which the sum was granted:

Oder No./Date	Payee	Description	Amount Kshs.
169243	Yana Tyres Centre Ltd	New Tyres C/W Tubes	300,588
25.05.2016	KCB Term Loan	KCB Term Loan - Standing Order	3,500,000
30.05.2016	Insurance	Insurance - Standing Order	1,510,030
25.07.2016	KCB Term Loan	KCB Term Loan - Standing Order	5,500,000
29.08.2016	VAT	VAT - Account Frozen	6,000,000
16.09.2016	Pension	Pension - Statutory Management	1,777,164
30.09.2016	Contracted Employees	Contracted Employees - Casuals	5,480,291
11.10.2016	Transfer CHQ 000068	Transfer - Unionizable Employees	15,960,185
04.11.2016	Transfer Chq000162	Pension - Statutory Management	1,521,927
10.11.2016	NHIF - Chq.000090	Penalty Avoidance	1,222,650
Total			42,772,835

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption unless the management has knowledge of the intention to liquidate the Company or cease its operations. .

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

Auditor-General's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast
- significant doubt on the Company ability to continue as a going concern. If I

- conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the accounting records; and
- (iv) In my opinion, the information given in the report of the directors is consistent with the financial statements.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

15 August 2018

Chemelil Sugar Company
 Reports and Financial Statements
 for the year ended June 30, 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2017 KShs	2016 KShs
Revenue	2	1,215,872,666	1,514,304,644
Cost of Sales	3	(1,570,615,893)	(1,772,739,261)
Gross (loss)/profit		(354,743,227)	(258,434,617)
Fair Value gain in biological assets	4	(35,547,066)	10,407,439
Other operating income	5	18,366,533	26,193,550
Administrative expenses	6	(356,816,300)	(402,330,504)
Operating (loss)		(728,740,059)	(624,164,132)
Finance costs	9	(132,598,087)	(146,118,839)
Finance income	10	4,705,013	2,828,393
(Loss) before tax		(856,633,133)	(767,454,578)
Tax	12	-	-
(Loss) for the year		(856,633,133)	(767,454,578)
Other comprehensive income:			
Revaluation surplus on property, plant and equipment			
Deferred tax on revaluation surplus of property, plant and equipment			
Total comprehensive income for the year			
(Loss) per share	13	(80.97)	(72.54)

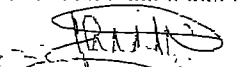

The notes on pages 21 to 42 form an integral part of the financial statements.

Chemelil Sugar Company
 Reports and Financial Statements
 For the year ended June 30, 2017

STATEMENT OF FINANCIAL POSITION

	Note	2017 KShs	2016 KShs
ASSETS			
Non-Current assets			
Property, plant and equipment	20	4,129,521,813	4,270,830,075
Biological assets	21	64,969,530	37,871,278
		<u>4,194,491,343</u>	<u>4,308,701,353</u>
Current assets			
Biological assets	21	77,621,202	140,266,519
Inventories	24	298,435,921	253,064,014
Loans to out growers	22	22,087,820	23,912,225
Trade and other receivables	23	207,621,505	175,653,613
Tax recoverable		15,183,641	15,183,641
Bank and cash balances	25	15,335,805	233,134,081
		<u>636,265,894</u>	<u>841,214,093</u>
TOTAL ASSETS		4,830,777,237	5,149,915,446
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital -	14	211,591,620	211,591,620
Asset revaluation reserve	15	3,139,174,457	3,140,240,479
Retained Earnings		(5,236,573,830)	(4,381,006,719)
Shareholders' funds		<u>(1,885,807,753)</u>	<u>(1,029,174,620)</u>
Non-current liabilities			
Borrowings	16	3,370,400,742	3,270,600,978
Other accrued liabilities	18	264,352,874	325,562,603
Government grant	19	40,000,000	.....
Total non-current liabilities		<u>3,677,753,616</u>	<u>3,596,163,581</u>
CURRENT LIABILITIES			
Trade and other payables	26	2,991,465,738	2,493,158,110
Borrowings	16	37,665,849	78,377,432
Government grant	19	.....	1,691,156
Dividends payable		<u>9,699,787</u>	9,699,787
Total current liabilities		<u>3,038,831,374</u>	<u>2,582,926,485</u>
TOTAL EQUITY AND LIABILITIES		4,830,777,237	5,149,915,446

The financial statements on pages 1 to 42 were approved and authorized for issue by the Board of Directors on2017 and signed on its behalf by:-

.....)CHAIRMAN

.....)MANAGING DIRECTOR

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital KShs.	Revaluation reserve KShs.	Retained Earnings KShs.	Total KShs.
As at 30 June 2016		211,591,620	3,140,738,185	(3,614,049,847)	(261,720,042)
On disposal		-	(497,706)	497,706	-
Transfer of excess depreciation		-	-	-	-
Total comprehensive (loss)		-	-	(767,454,578)	(767,454,578)
At end of year		211,591,620	3,140,240,479	(4,381,006,719)	(1,029,174,620)
Year ended 30 June 2017					
A start of year		211,591,620	3,140,240,479	(4,381,006,719)	(1,029,174,620)
Realised on disposal		-	(1,066,022)	1,066,022	-
Transfer of excess depreciation		-	-	-	-
Loss for the year		-	-	(856,633,133)	(856,633,133)
At end of year		211,591,620	3,139,174,457	(5,236,573,830)	(1,885,807,753)

The notes on pages 21 to 42 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

	Note	2017 KShs	2016 KShs
OPERATING ACTIVITIES			
Cash (used in) /generated from operations	28	(66,479,829)	116,799,803
Interest paid		(10,964,217)	(28,829,173)
Interest received		4,705,013	2,828,393
Tax paid		-	-
Net cash (used in) / generated from operating activities		(83,805,391)	90,799,02
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	20	(3,659,097)	(4,020,734)
Proceeds on disposal of property , plant and equipment		270,000	.....
Net cash used in investing activities		(3,389,097)	(4,020,734)
FINANCING ACTIVITIES			
Proceeds from Ministry of Agriculture/Commodity Fund		40,000,000	248,218,180
Repayment of borrowings		(25,485,737)	(8,776,915)
Net movement in bank borrowings		12,294,337	7,629,494
Interest charged		(132,598,087)	(123,518,152)
Directors' account		-	-
Net cash generated from financing activities		(105,789,487)	123,552,607
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(181,917,616)	210,330,896
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		192,507,091	(17,823,805)
Increase/(Decrease)		181,917,616	210,330,896
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	25	10,589,475	192,507,091

The notes on page 21 to 42 form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

(i) New and amended standards adopted by the company

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

A number of amendments to the standards and on interpretation became effective for the first time in the financial year beginning 1st January 2014 have been adopted by the Company. None of these had material effect on the Company's financial statements.

Amendments to IAS 19 on Defined Benefit Plans: Employee Contributions, issued in November 2013. The amendment applicable retrospectively to annual periods beginning on or after 1 July 2014, clarify the requirements on how employees' contributions to third parties that are linked to service should be attributed to periods of service. Specifically, contributions independent of the number of years of service can be recognised as a reduction in the service cost in the period in which the related service is rendered instead of attributing them to the periods of service.

Amendment to IAS 24 (Annual Improvements to IFRSs Cycle, issued in December 2013)
Applicable to annual periods beginning on or after 1 July 2014, the amendment clarifies on disclosure of payments to entities providing management services.

Amendment to IAS 16 and IAS 38 (Annual Improvements to IFRSs Cycle, issued in December 2013). Applicable to annual periods beginning on or after 1 July 2014 it relates treatment of the gross carrying amount and accumulated depreciation or amortization where the entity uses the revaluation model.

Amendment to IFRS 8 (Annual Improvements to IFRSs Cycle, issued in December 2013)
Applies to the annual periods beginning on or after 1 July 2014, provides for disclosure of the judgements made by management in applying the aggregation criteria to operating segments, and clarifies that reconciliations of the total of the reportable segments' assets to the entity's assets be disclosed only if the segment assets are reported regularly.

Amendment to IAS 40 (Annual Improvements to IFRSs Cycle, issued in December 2013)
Applicable to annual periods beginning on or after 1 July 2014, the amendment provides that IFRS 3 and IAS 40 are interdependent where IAS 40 assists in distinguishing between investment property and owner-occupied property and IFRS 3 helps determining whether the acquisition of an investment property is a business combination.

Amendment to IFRS 3 (Annual Improvements to IFRSs Cycle, issued in December 2013)
Applicable prospectively to annual periods beginning on or after 1 July 2014, the amendment clarifies that standard excludes from its scope accounting for the formation of any joint arrangement in the financial statements of the joint arrangement itself.

Amendment to IFRS 13 (Annual Improvements to IFRSs Cycle, issued in December 2013)
Applicable to annual periods beginning on or after 1 July 2014, the amendment provides that the portfolio exception in IFRS 13 - allowing an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis applies to all contracts (including non-financial) within the scope of IAS 39/IFRS 9.

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2015 and not adopted in

advance of the effective date.

IFRS 14 Regulatory Deferral Accounts (issued in January 2014) – The new standard, effective for Financial years beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to applying their existing policy for regulatory deferral account balances with certain disclosures.

Amendments to IFRS 11 titled Accounting for Acquisitions of Interests in Joint Operations issued in May 2014 is applicable prospectively to annual periods beginning on or after 1 July 2016 and requires that an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combination accounting principles and disclosure in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in IFRS 11. The amendments apply to both the initial acquisition of an interest in a joint operation and the acquisition of an additional interest in a joint operation (in the latter case, previously held interest is not re-measured).

Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortisation issued in May 2014 adds guidance and provides that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. However, this presumption can be refuted in certain limited circumstances. They are prospectively effective for annual periods beginning on or after 1 January 2016.

Amendments to IAS 16 and IAS 41 titled Agriculture: Bearer Plants (issued in June 2014) are applicable to annual periods beginning on or after 1 January 2016 and define bearer plants - living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (like grape vines, rubber trees, oil palms, sugar cane) – and include them within IAS 16's scope while the produce growing on bearer plants remain within the scope of IAS 41.

Amendments to IAS 27 titled Equity Method in Separate Financial Statements issued in August 2014 is applicable to annual periods beginning on or after 1 July 2016, reinstates the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

IFRS 15 Revenue from Contracts with Customers issued in May 2014 and effective for annual periods beginning on or after 1 January 2017, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.

IFRS 9 Financial Instruments issued in July 2014 will replace IAS 39 (and all the previous versions of IFRS 9) and is effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition. The standard provides that all recognised financial assets be subsequently measured at amortised cost or fair value (through profit or loss and or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless it creates an accounting mismatch.

For the impairment of financial assets, IFRS 9 introduces a credit model based on the concept of providing for expected losses at the inception of a contract. It will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

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.

(b) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Key sources of estimation uncertainty

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

-Biological assets-In arriving at the fair valuation of biological assets, the management estimate the success rate of harvesting at 42 tonnes of cane per hectare. Should the success rate fall by 10% from the estimate assumed by the management, the fair valuation of biological assets would decrease by Shs. 22,441,365. The significant assumptions used are set out in Note 21.

(c) Revenue recognition

Revenue represents the value of sugar and molasses supplied by the company net of sugar Development Fund Levy, Value Added Tax, rebates and discounts. The variance in revenue in the year 2017 compared to the year 2016 was due to major Factory breakdown which affected throughput, competition for cane in the zone and high conversion ratios due to ageing plant.

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

- (i) Sales are recognized upon delivery of products and customer acceptance.
- (ii) Interest income is accounted for in the period it is earned.
- (iii) Rental income is accounted for in the period it is earned.
- (iv) other income is recognized as it accrues.

(d) Translation of foreign currencies

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

(e) Property, Plant and Equipment

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

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

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

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

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

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

	Rate %
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%

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

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

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

(f) Impairment of non financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial Instruments

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

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

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

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

Financial liabilities

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

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

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

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

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

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

Offsetting financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing costs. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

i) Cash and cash equivalents

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

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

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

j) Share capital

Ordinary shares are classified as capital.

k) Dividends

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

l) Taxation

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

Current tax

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

Deferred tax

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

m) Employee entitlements

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Retirement benefit obligations

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

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

o) Biological assets

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

p) Government grants

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

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

q) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of presentation of financial statements

At the reporting date current liabilities exceeded current assets by Shs. 2,402,545,480 (2016: Shs. 1,741,712,392). The shareholders fund was Shs. (1,885,807,753) on 30 June 2017. The company has accumulated losses amounting to shs. 5,236,573,830 (2016: 4,381,006,719). The company meets its day to day working capital requirements from revenue generated and through borrowings from its bankers and Commodity Fund.

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

2. Revenue

	2017	2016
	Shs	Shs
Gross sales	1,400,937,165	1,820,129,518
Less: Value Added Tax	(185,064,499)	(246,544,457)
Sugar Development levy	.....	(59,280,417)
Discounts	(-----)	(.....)
Net Sales	1,215,872,666	1,514,304,644
Gros sales comprising of the following:		
Revenue from sale of milled local sugar	1,341,723,355	1,787,993,436
Revenue from sale of Molasses	59,213,810	32,136,082
Total revenue	1,400,937,165	1,820,129,518

3. Cost of sales

Cost of cane	813,832,831	1,087,493,682
Factory costs	749,141,075	655,131,560
Increase in closing inventory	7,641,986	30,114,019
Total cost of sales	1,570,615,893	1,772,739,261

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

Sugar plantation	(35,659,066)	10,572,439
Livestock	112,000	(165,000)
	<u>(35,547,065)</u>	<u>10,407,439</u>

5. Other operating income

Miscellaneous income	3,213,324	599,944
Gain/ (Loss)on disposal of Property, plant and equipment	(726,250)	699,990
Physical inventory adjustment	1,377,076	1,238,118
Government grant	1,691,156	11,362,316
Irrigation grant	.....	.....
Rental income	12,456,802	12,293,182
Total other operating income	18,366,533	26,193,550

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2017	2016
	Shs	Shs
6. Administrative expenses		
Finance and administration department	149,857,625	186,505,698
Loss on disposal of property, plant and equipment	-	-
Human resource department	<u>205,958,675</u>	<u>215,824,806</u>
Total administrative expenses	356,816,300	402,330,504
7. Operating (loss)		
The following items have been charged/(credited) in arriving at operating (loss):		
Depreciation on property, plant and equipment (Note 20)	143,676,108	143,761,179
(Gain)/loss on disposal of property, plant and equipment	726,250	.....
Auditors' remuneration	2,291,663	2,000,000
Directors' emoluments:- Allowances	11,352,823	11,977,715
-fees	-	-
Interest expense	-	-
Other receivables- impairment	-	-
Loan outgrowers- impairment	-	-
Repaires and maintenance	230,233,791	133,603,647
Staff costs (note 8)	<u>618,975,371</u>	<u>611,041,653</u>
8. Staff costs		
Salaries and wages	600,215,121	592,446,855
Leave pay and allowance	2,885,134	2,944,750
Pension fund contribution:		
-Defined contribution scheme	14,004,916	13,691,407
-National Social Security Fund	<u>1,870,200</u>	<u>1,958,640</u>
	618,975,371	611,041,653
9. Finance costs		
Bank overdraft interest	35,170.75	20,792
Loan interest	132,062,916	144,898,047
Penalty charges	<u>500,000</u>	<u>1,200,000</u>
Total finance costs	132,598,086	146,118,839
10. Finance income		
Interest income	<u>4,705,013</u>	<u>2,828,393</u>
This represents interest income from loans advanced by the company to employees and farmers.		
11. Other charges and expenses		
Provision for bad and doubtful debts	-	-
-Loans to outgrowers (societies)	-	-
-Other receivables	-	-
Total other charges and expenses	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2017	2016
	Shs	Shs
12. Tax		
Current tax	-	-
Deferred tax charge (note17)	-	-
The tax on the company's (loss) before tax differs from the theoretical amount that would arise using basic rate as follows:		
(Loss) before tax	(856,633,133)	(767,454,578)
Tax calculated at a tax rate of 30% (2016: 30%)	(256,989,940)	(230,236,373)
Tax effect of:		
-Deferred tax not recognized	(48,100,998)	(94,798,772)
-Expenses not deductible for tax purposes	179,949,423	174,939,184
Tax charge	-	-
13. (Loss) per share		
(Loss) per share is calculated by dividing the (loss) attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year		
(loss) attributable to equity holders	(856,633,133)	(767,454,578)
Weighted average number of shares	10,579,581	10,579,581
(Loss) per share	(80.97)	(72.54)
14. Share capital		
Authorised, issued and fully paid		
10,579,581 (2015: 10,579,581) ordinary shares of Shs. 20 each	211,591,620	211,591,620
15. Revaluation reserve		
Property, plant and equipment	3,269,329,795	3,269,329,795
Property, plant and equipment		
-Freehold land	1,400,000,000	1,400,000,000
-Land and buildings	1,079,671,616	1,079,671,616
-Plant equipment and machinery	784,748,017	784,748,017
	<u>3,264,419,632</u>	<u>3,264,419,632</u>
The movements in reserves were as follows:		
Freehold land		
At start of year	1,400,000,000	1,400,000,000
Increase in fair value	-	-
At end of year	<u>1,400,000,000</u>	<u>1,400,000,000</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Revaluation reserve (continued)	2017 Shs	2016 Shs
Buildings		
At start of year	1,079,671,616	1,079,671,616
Movement in revaluation	-	-
Transfer of excess depreciation	-	-
Deferred tax on excess depreciation transfer	-	-
At end of year	<u>1,079,671,616</u>	<u>1,079,671,616</u>
Plant equipment and machinery		
At start of year	784,748,017	784,748,017
Movement in revaluation	-	-
Transfer of excess depreciation	-	-
Deferred tax on excess depreciation transfer	-	-
At end of year	<u>784,748,017</u>	<u>784,748,017</u>
Reserves are not distributable.		
16. Borrowings		
The borrowings are made up as follows:		
	2017 Shs	2016 Shs
Non-current		
Bank loan	28,759,151	45,612,315
Kenya Sugar Board loan	<u>3,344,641,591</u>	<u>3,224,988,663</u>
	<u>3,373,400,742</u>	<u>3,270,600,978</u>
Current		
Bank overdraft (note 25)	4,746,330	40,626,990
KCB Insurance Financing loan	12,294,337	11,365,007
Bank loan	<u>20,625,182</u>	<u>26,385,435</u>
	<u>37,665,849</u>	<u>78,377,432</u>
Total borrowings	<u>3,411,066,591</u>	<u>3,348,978,410</u>

Borrowings are secured as follows:

a) Bank overdrafts:

- A debenture for Shs. 145 million over the assets of the Company ranking pari passu with Commodity Fund;
- Legal charge over property L.R Nos. 11840, 1611/4 and 1612/4 in the name of the company;
- Letters of awareness from parent Ministry of Agriculture for sum of Shs. 145 million;

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 borrowings (continued)

b) Kenya Sugar Board loan

-Debentures over the company's assets	2017	2016
	%	%
Kenya Sugar Board loan	3-6	3-6
Bank overdraft/KCB Loan	18	19

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

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

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

	2017	2016
	Shs	Shs
Maturity of non-current borrowings		
Between 1 and 2 years	3,192,774,242	3,110,355,754
Over 2 years	<u>180,626,500</u>	<u>160,245,224</u>
	3,373,400,742	3,270,600,978

During the year, the company defaulted on loan agreements relating to Kenya Sugar Board by not honouring the repayment of principal and interest amounting to Shs. 120,686,039 due to cash flow constraints.

Borrowings from this institution amounted to 3,344,641,591 (2016: Shs. 3,224,988,663) as at the year end. This include interest payable of Shs. 757,724,719 (2016: 638,071,790) which remained unpaid as at 30 June 2017. The management expects to meet all contractual obligations in the future.

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

	2017	2016
	Shs	Shs
At start of the year	3,224,988,663	2,862,029,246
Proceeds during the year	-	248,218,180
Interest charged	121,098,699	123,518,152
Repayment during the year	<u>(1,445,772)</u>	<u>(8,776,915)</u>
At end of year	<u>3,344,641,591</u>	<u>3,224,988,663</u>

There were no undrawn facilities as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Deferred tax

Deferre tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2016: 30%).
 The movement of the deferred tax account is as follows:

	2017 Shs	2016 Shs
As at year start	-	-
Statement of comprehensive income (credit) (note 1)	-	-
As at year end	-	-

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

	At start of year of comprehensive income Shs	(credit)/charge to statement Shs	At end of year Shs
Deferred tax liabilities			
Property, plant and equipment			
-Historical cost	(41,531,119)	13,789,313	(27,741,806)
-Revaluation surplus	(786,238,433)	23,647,565	(762,590,868)
-Biological assets	(53,441,891)	10,664,120	(42,777,220)
	(881,210,891)	48,100,998	(833,109,893)
Deferred tax assets			
Other temporary differences	91,280,478		91,280,478
Tax loss carried forward	789,930,413	(48,100,998)	741,829,415
	881,210,891	(48,100,998)	833,109,893
Net deferred tax liability	-	-	-

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

No provision has been made for the above deferred tax assets, which includes an asset arising from tax losses amounting to Kshs.-5,236,573,830 (2016: Kshs. 5,206,917,323) because it is not expected that the company will have taxable profits in the foreseeable future against which the the temporary differences and tax losses can be utilized. The Kenyan Income Tax Act requires tax losses to be utilized within four years from the date which they were incurred and for any tax losses incurred before 1st January 2010 are deemed to have been incurred on that date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Other accrued liabilities:

At 1 st July 2015	Gratuity Kshs	Provision for long-term service dues Shs	Provision for outstanding leave days Shs	Total Shs	
At start of year	10,671,851		333,582,480	28,866,623	373,120,955
Statement of comprehensive Income charge	18,445,341		40,088,340	725,752	59,259,433
Paid/utilized during theyear	(20,822,370)		(78,211,232)	(7,784,183)	(106,817,785)
At year end	8,294,822		295,459,588	21,808,192	325,562,603
At 1st July 2016					
At start of year	8,294,822		295,459,588	21,808,192	325,562,603
Statement of comprehensive Income charge	4,654,122		2,704,822	56,981.95	7,415,925
Paid/utilized during theyear	(4,150,504)		(63,216,136)	(1,259,014)	(68,625,653)
At year end	8,798,440		234,948,274	20,606,160	264,352,874

19. Government grants

	2017 Shs	2016 Shs
Road Machinery grant		
At year start	1,691,156	13,053,472
Amount recognized	1,691,156	11,362,316
At end of year	.....	1,691,156
State Department of Agriculture grant		
At year start	40,000,000	.....
Amount recognized	.....	.....
At end of year	40,000,000	.....
Total grants	40,000,000	1,691,56
Current	.....	1,691,156
Non-current	40,000,000	.....
	40,000,000	1,691,156

The grant relates to advance of Kshs 40 million by Government of Kenya to the company which was given for the purposes of paying farmers arrears. There are no conditions attached to the grant.

Chemelil Sugar Company
Reports and Financial Statements
For the year ended June 30,2017

20. Property, plant and equipment

Year ended 30 June 2017

COST OR VALUATION

	Freehold land KShs	Buildings and roads KShs	Plant, equipment and machinery KShs	Motor vehicles and other equipment KShs	Capital work- in-progress KShs	Total KShs
At year start	1,400,000,000	1,555,640,000	1,736,728,365	115,642,887	-	4,808,011,252
Additions	-	-	2,596,127	1,062,970	-	3,659,096.65
Disposals	-	-	(2,000,000)	(250,000)	-	(2,250,000)
At 30 June 2017	1,400,000,000	1,555,640,000	1,739,324,492	116,455,857	-	4,809,420,349
COMPRISING						
Cost	-	3,551,424	600,683,235	107,400,108	-	711,634,767
Valuation	1,400,000,000	1,552,088,576	1,136,641,257	9,055,749	-	4,097,785,582
	1,400,000,000	1,555,640,000	1,739,324,492	116,455,857	-	4,809,420,349
DEPRECIATION						
At 1 July 2016	-	126,395,750	310,156,624	100,923,804	-	537,476,178
On disposal	-	-	(1,041,250)	(212,500)	-	(1,253,750)
Charge for the year	-	38,891,000	97,064,483	7,720,625	-	143,676,108
At 30 June 2017	-	165,286,750	406,179,857	108,431,929	-	679,898,536
NET CARRYING AMOUNT						
At 30 June 2017	1,400,000,000	1,390,353,250	1,331,144,635	8,023,928	-	4,129,521,813

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

Chemelil Sugar Company
Reports and Financial Statements
For the year ended June 30, 2017

20. Property, plant and equipment

	Freehold land KShs	Buildings and roads KShs	Plant, equipment and machinery KShs	Motor vehicles and other equipment KShs	Capital work- in-progress KShs	Total KShs
Year ended 30 June 2016						
COST OR VALUATION						
At year start	1,400,000,000	1,555,640,000	1,733,559,436	115,404,082	-	4,804,603,518
Additions	-	-	3,504,929	515,805	-	4,020,734
Disposals	-	-	(336,000)	(277,000)	-	(613,000)
At 30 June 2016	<u>1,400,000,000</u>	<u>1,555,640,000</u>	<u>1,737,064,365</u>	<u>115,642,887</u>	-	<u>4,808,011,252</u>
COMPRISING						
Cost	-	3,551,424	598,087,108	106,337,138	-	707,975,670
Valuation	<u>1,400,000,000</u>	<u>1,552,088,576</u>	<u>1,138,641,257</u>	<u>9,305,749</u>	-	<u>4,100,035,582</u>
	<u>1,400,000,000</u>	<u>1,555,640,000</u>	<u>1,736,728,365</u>	<u>115,642,887</u>	-	<u>4,808,011,252</u>
DEPRECIATION						
At 1 July 2015	-	87,504,750	212,824,556	93,404,512	-	393,733,818
On disposal	-	-	(133,770)	(180,050)	-	(313,820)
Charge for the year	-	<u>38,891,000</u>	<u>97,220,837</u>	<u>7,649,342</u>	-	<u>143,761,179</u>
At 30 June 2016	-	<u>126,395,750</u>	<u>309,911,623</u>	<u>100,873,804</u>	-	<u>537,181,177</u>
NET CARRYING AMOUNT						
At 30 June 2016	<u>1,400,000,000</u>	<u>1,429,244,250</u>	<u>1,426,816,742</u>	<u>14,769,083</u>	-	<u>4,270,830,075</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Biological assets

	2017	2016
	KShs.	KShs.
a) Bearer assets:		
Plantations – sugar cane	141,843,731	177,502,797
Consumable assets		
- livestock	747,000.	635,000
Total biological assets	<u>142,590,731</u>	<u>178,137,797</u>

b) Details of biological assets:

i) Milk cattle

Held for meat and milk purposes

Quantities at year-end in number of animals

- Mature	10	13
- Immature	1	3
Total	<u>11</u>	<u>16</u>

ii) Sugarcane

Held for sugarcane harvesting

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

- Plant	296	446
- Ratoon	1,336	1,120
	<u>1,632</u>	<u>1,566</u>

c) Determining fair value of agricultural produce:

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

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

- i) The market price of cane is KShs. 4,200 per tonne (2016: KShs. 3,400 per tonne).
- ii) Growing cane has a productive life of eighteen months. Cane at age of six months and above is assumed to mature after a period of twelve months after the reporting date.
- iii) Climatic conditions will remain the same.
- iv) The fair value per tonne is spread over the crop life from age of one month based on the proportion of cane development costs.

e) Reconciliation of carrying amount of biological assets:

	2017	2016
	KShs	KShs
i) Sugar cane plantations		
At the start of the year	177,502,797	166,930,358
Aggregate Gain(Loss) due to changes in fair value (note 4)	(35,659,066)	10,572,439
At the end of the year	<u>141,843,732</u>	<u>177,502,797</u>

	2017 KShs	2016 KShs
NOTES TO THE FINANCIAL STATEMENTS (continued)		
Apportionment		
Current portion	76,874,202	140,266,519
Non-current portion	64,969,530	37,236,278
	<u>141,843,732</u>	<u>177,502,797</u>
21. BIOLOGICAL ASSETS (Continued)		
ii) Livestock		
At start of year	635,000	800,000
Aggregate (loss)/gain due to changes in fair value (note 4)	<u>112,000</u>	<u>(165,000)</u>
At end of year	747,000	635,000
Total value of biological assets		
Current portion	77,621,201	140,266,519
Non-current portion	<u>64,969,530</u>	<u>37,871,278</u>
	<u>142,590,731</u>	<u>178,137,797</u>
22. Loans to Outgrowers		
Co-operative societies	372,014,855	370,048,620
Large and medium scale farmers	56,582,587	61,058,687
Transport and equipment loans	<u>1,518,331</u>	<u>832,872</u>
	430,115,773	431,940,179
Less: impairment		
Co-operative societies	(365,958,108)	(365,958,108)
Large and medium scale farmers	(41,236,110)	(41,236,110)
Transport and equipment loans	<u>(833,736)</u>	<u>(833,736)</u>
	<u>(408,027,954)</u>	<u>(408,027,954)</u>
	22,087,820	23,912,225

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. Loans to outgrowers (continued)

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

23. Trade and other receivables	2017	2016
	KShs	KShs
Trade receivables	36,922,327	36,625,375
Less : Provision for impairment	<u>(22,591,029)</u>	<u>22,591,029</u>
Net trade receivables	14,331,298	14,034,346
Other receivables	74,244,072	92,803,337
Less : Provision for impairment	<u>(43,798,468)</u>	<u>(43,798,468)</u>
Net other receivables	30,445,604	49,004,869
Deposits and prepayment	162,844,603	112,614,398
Total trade and other receivables	207,621,505	175,653,613

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

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

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

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

24. Inventories

	2017	2016
	Shs	Shs
Milled sugar	47,599	7,689,586
Factory and field stores	288,011,972	289,153,325
Milled sugar-in-process	23,370,896	23,421,703
Unmilled cane	0	2,400,000
Filling station	833,187	833,187
Molasses	775,635	296,100
Molasses in process	2,607,810	2,607,810
Stationery	2,420,252	1,338,648
Medicines	936,357	1,070,139
Goods-in-Transit	<u>62,295,057</u>	<u>7,116,363</u>
	381,298,768	335,926,861
Less; Impairment for obsolete and slow moving inventories	<u>82,862,847</u>	<u>82,862,847</u>
	298,435,921	253,064,014

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Cash and Cash equivalents

	2017 Shs	2016 Shs
Cash at bank and in hand	15,335,805	233,134,081
Short-term bank deposits	-	-
	<u>15,335,805</u>	<u>233,134,081</u>

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

	2017 Shs	2016 Shs
Cash at bank and in hand	15,335,805	233,134,081
Short-term bank deposits	-	-
Bank overdrafts (note 16)	<u>(4,746,330)</u>	<u>(40,626,990)</u>
	<u>10,589,475</u>	<u>(192,507,091)</u>

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

26. Trade and other payables

	2017 shs	2016 Shs
Staff & Current Deffered Debts with Credit bal.	75,567,334	46,440,538
Trade payables	284,516,811	213,759,499
Cane payables	330,872,800	362,235,626
Value Added Tax	744,751,459	565,227,155
Kenya Sugar Board Levy	474,109,867	474,109,867
Payroll liabilities	616,750,217	415,271,439
Prepaid Sugar Sales	232,121,518	153,360,450
Other payables and accruals	<u>232,775,731</u>	<u>262,753,536</u>
	<u>2,991,465,738</u>	<u>2,493,158,110</u>

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

27. Related party transactions and balances

Commodity Fund loans

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

Directors and Executive staff

During the year Kshs.11.3 Million was incurred on Directors allowances and expenses while Kshs. 15 Million was spent on Heads of Department salaries and allowances.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. Cash (used in) operations

	2017	2016
	Shs	Shs
Reconciliation of loss before tax to cash (used in) operations (loss before tax)	(856,633,133)	(767,454,578)
Adjustment for:		
Depreciation on property, plant and equipment (note 20)	143,676,108	143,761,179
(Gain)/loss on disposal of property, plant and equipment	726,250	.....
Net fair value gain on biological assets (note 4)	35,547,066	(10,407,439)
Interest (income)	(4,705,013)	(2,828,393)
Interest expense	132,598,087	146,118,839
Amortisation of government grant	(1,691,156)	(11,362,316)
Decrease provision for other accrued liabilities (note 18)	61,209,729	47,558,352
 Changes in working capital		
-Inventories (note 24)	(45,371,907)	40,012,541
-Trade and other receivables (note 23)	(31,967,892)	(23,523,058)
-Loan to outgrowers (note 22)	1,824,405,	100,753
-Restricted cash and cash equivalents	-	-
-Trade and other payables	<u>498,307,628</u>	<u>554,823,923</u>
-Cash (used in) operations	(66,479,828)	116,799,803

29. Contingent liabilities

The company is a defendant in various litigations and claims amounting to Kshs. 281 million, which arose in the ordinary course of business. A provision of Ksh 66 million has been made in the financial statements, as the directors believe, based on information currently available, that the ultimate resolution of these legal proceedings is not likely to have a material effect on the operations of the company.

30. Commitments

	2017	2016
	Shs	Shs
Capital commitments		
Capital expenditure contracted for at the reporting date is as follows:		
Factory and Agriculture plant and machinery	-	-

31. Risk management objectives and policies

Financial risk management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

a) Market risk

-Foreign exchange risk

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

-Interest rate risk

The company is exposed to interest rate risk as it borrows funds from Commodity Fund and through bank overdrafts. The risk is managed by negotiating for a fixed rate with the Banks over a period of time. For Commodity Fund, the company negotiates for an extended repayment schedule that does not expose the company to penalties.

At 30th June 2017, if the interest rates at that date had been 10% higher with all other variables held constant, post-tax (loss) for the year would have been Shs.9,000,000 (2016: Shs. 11,000,000) arising mainly as a result of higher interest expense on variable borrowings. The capping of interest rates by the Government has reduce exposure to the risk.

-Price risk

The Company realized favourable sugar prices in the year under review due to extension of COMESA safeguards and cane shortage in the sugar zones. Thus there was no exposure to price.

b) Credit risk

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

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

The company's policy on cane development loans is that the loans are granted to farmers who meet the loaning conditions which include provision of adequate collateral cover. Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

c) Liquidity risk

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

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

32. Capital management

The company's objectives when managing capital are:

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

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

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

33. Country of incorporation

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

34. Post balance sheet event

After the balance sheet date the Government of Kenya has since advertised for expression of interest from strategic investors who shall buy 51% of the share stake in Chemelil Sugar Company.

35. Presentation currency

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

36. Statement of budget and actual comparisons

	Budget	Actual	Variance
Revenue			
Net Gross Sales	3,638,225,462	1,215,872,666	2,422,352,796
Operating Income	24,500,000	18,366,533	6,133,467
Finance Income	3,649,999	4,705,013	(1,055,014)
Total income	3,666,375,461	1,238,944,212	2,427,431,249
Expenses			
Cost of sales and loss in fair value of cane	2,884,654,728	1,606,162,958	1,278,491,770
Finance and Administration costs	239,944,431	149,857,625	90,086,806
Human Resources Costs	262,073,328	206,958,675	55,114,653
Financing Costs	149,004,994	132,598,087	16,406,907
Total expenditure	3,535,677,481	2,095,577,345	1,440,100,136
Surplus/(Deficit)for the period	130,697,980	(856,633,133)	987,331,113

In the year under review ,the Company experienced operation challenge due to shortage of can supply in the zone.This led to unfavourable variance in revenue generation and overall loss in the year.