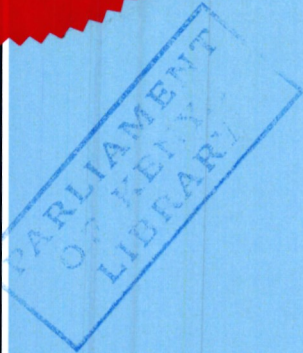
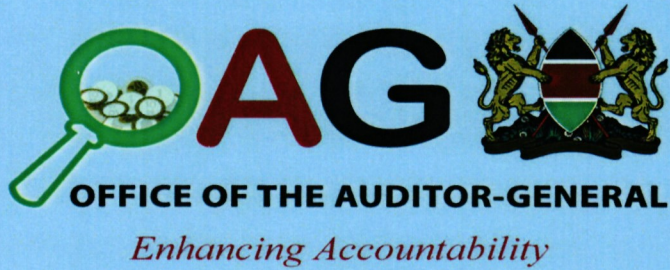


REPUBLIC OF KENYA



REPORT


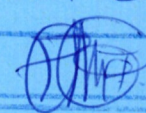
OF

THE AUDITOR-GENERAL

ON

CHEMELIL SUGAR COMPANY LIMITED

FOR THE YEAR ENDED
30 JUNE, 2020

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 22 MAR 2022	DAY: TUESDAY
TABLED BY:	MAJORITY LEADER
CLERK-AT THE TABLE:	



CHEMELIL SUGAR COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2020

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



**CHEMELIL SUGAR COMPANY LIMITED
FINANCIAL STATEMENTS**

CONTENTS	Page
Company Information	1 - 6
Report of Chairperson	7-8
Report of Managing Director	9-10
Corporate Governance	11-12
Corporate Social Responsibility	13
Directors Report	14
Statement of Directors' Responsibilities	15
Financial Statements:	
Statement of Comprehensive Income	16
Statement of Financial Position	17
Statement of Changes in Equity	18
Statement of Cash Flows	10
Notes to the Financial Statements	20 - 42

KEY ENTITY INFORMATION AND MANAGEMENT

Background information

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

Principal Activities

The principal activity/mission of the Company is to manufacture sugar and co-products from sugarcane and to establish and manage sugarcane plantations.

BOARD OF DIRECTORS

Mr. Zedekiah Kiprop Bundotich	- Chairman (Exited in July 2020)
Mr. Gabriel Nyangweso	- Ag. Managing Director
Mr. David Osiany	- Independent Director (Exited in July 2020)
Principal Secretary, Ministry of Agriculture	- Alternate, Ms. Jackline Kiio (Joined in Dec. 2018)
Principal Secretary, National Treasury	- Alternate, Mr. Kennedy Odhiambo
Development Bank of Kenya	- Alternate, Mr. Jacob Mananda
Agricultural Development Corporation	- Alternate, Mr. Richard Aiyabei
VIVO Energy(K) LTD	- Alternate, Ms. Naomi Assumani
Mr. George Oballa	- Independent Director (Exited in July 2020)
Ms. Christine Atieno	- Independent Director (Exited in July 2020)
Ms. Marjorie Nangulu	- Independent Director (Exited in July 2020)

CHIEF OFFICERS

Mr. Gabriel Nyangweso	- Ag. Managing Director
Mr. Emmanuel Obetch Ngala	- Head of Finance
Mr. Jorim Osewe	- Head of Agriculture (Ag)
Mr. Elijah Chelagat	- Head of Factory (Ag)
Ms. Jacqueline Kotonya	- Quality Assurance Manager
Mr. Moffat Omondi	- Head of Human Resources (Ag)
Ms. Linda Kiplagat	- Marketing Manager (Ag)
Mr. Samson Oyayo	- ICT Manager (Ag)
Mr. Moses Aghing'a	- Internal Audit Manager (Ag)

Entity Headquarters

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

Entity Contacts

Telephone : (254) 020-2031883/4/5
E-mail: chemelil@swiftkisumu.com / chemelil.mdsoffice@gmail.com
Website: [www.chemsugar .go.ke](http://www.chemsugar.go.ke)

Entity Bankers

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

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

Co-operative Bank of Kenya Limited
P.O BOX 301511-40100
KISUMU

Independent Auditors





On behalf of:
The Auditor-General
P. O. Box 30084 - 00100
Nairobi, Kenya

Principal Legal Adviser
Migos Ogamba & Company
P.O. Box 17- 40100
Nairobi, Kenya.
Otieno Ragot & Company
P. O. Box 3051 - 40100
Kisumu, Kenya.


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


THE MANAGEMENT TEAM

MANAGER'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
 <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 in an acting capacity from 5th May 2017.</p>
 <p>2. Mr. Elijah Chepyegon Chelagat Head of Factory (Ag)</p>	<p>Aged 49 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. Emmanuel Obetch Ngala Head of Finance</p>	<p>Aged 45 years, Emmanuel is a finance and strategy professional with over 18 years of experience in accounting and corporate reporting, financial management, strategy formulation and tax planning. He began his career as a graduate management trainee at Mumias Sugar Company before being confirmed to the position of Cost & Projects Accountant. He rose through the ranks serving in the positions of Treasury Accountant, Corporate Planning and Strategy Manager and Finance Manager (Systems and Compliance) before joining Chemelil Sugar Company. Emmanuel is a qualified accountant, a certified ISO 9001:2015 QMS lead Auditor and a trained Risk Management Champion. He holds Bachelor's degree in Commerce (Accounting Option) from Kenyatta University (KU) and Executive Master's degree in Business Administration from Jomo Kenyatta University of Agriculture and Technology (JKUAT). He is a member of The UK based Association of Chattered Certified Accountants (ACCA) and The Kenya Institute of Management (MKIM).</p>
 <p>4. Ms. Jacqueline Kotonya Quality Assurance Manager</p>	<p>Ms. Kotonya aged 46 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>5. Mr. Moffat Omondi Head of Human Resource (Ag)</p>	<p>Mr. Omondi is aged 53 years. He 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>6. Mr. Japheth Ojwang Supply Chain Manager (Ag)</p>	<p>Mr. Ojwang is aged 43 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>7. Ms. Lindah J. Kiplagat Marketing Manager (Ag)</p>	<p>Ms. kiplagat is aged 43. She holds a Masters Degree (MBA) in Strategic Management from Jkuat University, BBA in Marketing from Kenya Methodist University and Diploma in Public Relations from UON. She is a member of Marketing Society of Kenya. She was appointed the Marketing Manager in acting capacity in May 2018.</p>
 <p>8. Mr. Samson Oyayo ICT Manager (Ag)</p>	<p>Mr. Oyayo is aged 59 years. He holds a Bachelor of Science (Computer Science and Mathematics) from University of Nairobi. Mr. Oyayo has training on Microsoft Certified Systems Engineer (MCSE), Data Communication Networks, Structured Systems Analysis and Design, and Oracle Administration.</p> <p>He was appointed to the position of ICT manager in acting capacity in August 2017.</p>

THE BOARD OF DIRECTORS

DIRECTOR'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
<p>1. Mr. Zedekiah Kiprop Bundotich</p> <p>Chairman</p>	<p>Mr. Bundotich was appointed as Chairman of the Board of Directors with effect from 20th September, 2018. He is a renowned businessman with a wide knowledge in transport and dairy industry spanning over 15 years.</p> <p>Holds Bsc of science in Management and Marketing (Royal Holloway University of London), Diploma in Business Management.</p> <p>He is the group Chairman and founder of Buzeki Group of Companies. Has achieved a lot in the business field. Exited in July 2020.</p>
<p>2. Mr. David Osiany</p> <p>Independent Director</p>	<p>Mr. Osiany is a public policy professional with over 10 years experience in policy advocacy and advice, and strategic public management with special bias to communication, HR Management & Organizational Development. He holds MSc. Public Policy from the University of Bristol, United Kingdom and Bachelors Degree in Arts (Communication & Sociology) from the University of Nairobi. He was appointed Director with effect from 20th September, 2018. Exited in July 2020.</p>
<p>3. Ms. Christine Atieno Otieno</p> <p>Independent Director</p>	<p>Ms. Atieno was appointed Board member of the Company with effect from 20th September, 2018. She is a Lawyer with vast experience in consultancy services and research. Currently a partner in charge of Finance and Administration at Maangi and Otieno Advocates. A member of various professional bodies e.g. FIDA, LSK, and CRADLE. Has previously consulted for APHIA-USAID, Oxfam GB, and Committee for implementation of the constitution of Kenya (CIC), National Legal Aid Awareness Program (NALEAP).</p> <p>Has Bachelor's degree in Law from University of Nairobi, Diploma in Law from Kenya School of Law. Exited in July 2020.</p>
<p>4. Mr. George A. O. Oballa</p> <p>Independent Director</p>	<p>Mr. Oballa, aged 50 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. Exited in July 2020.</p>
<p>5. 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). Exited in July 2020</p>
<p>6. Mr. Jacob Mananda</p> <p>Alternate Director</p>	<p>Mr. Mananda represents Development Bank of Kenya. He has Masters in Business Administration (Finance).</p>
<p>7. Mr. Kennedy Odhiambo</p> <div data-bbox="201 1688 392 1877" style="text-align: center;">  </div> <p>Alternate Director</p>	<p>Mr. Odhiambo represents the National Treasury as per the State Corporation Act. Alternate to Principal Secretary, The National Treasury.</p>

<p>8. Mr. Richard Aiyabei</p>  <p>Alternate Director (ADC)</p>	<p>Mr. Richard Aiyabei aged 52 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 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>9. Ms. Jacqueline Kio Alternate Director Ministry of Agriculture, Livestock, Fisheries and Irrigation</p>	<p>Represents Ministry of Agriculture, Livestock and Fisheries . She joined the Board on 11th October 2018.</p>

CHAIRMANS REPORT

The performance of Chemelil Sugar Company for the year ended 30 June 2020 is as follows;

OVERVIEW

During the financial year under review, a myriad of challenges affected operating environment. The major challenge was cane shortage as a result of farmers not availing cane to the mill insisting that their arrears be settled before any delivery is made having been omitted from the part payment of cane arrears released by the government in March 2019. The other challenge was breakdown of key machinery in the factory due to ageing plant which has not undergone major maintenance since the year 2013. Due to these challenges, the Company managed to mill for four months thus cashflow and profitability was adversely affected.

OPERATIONS

There were no milling operations in the first two quarters of the year after farmers withheld their cane supply and stopped delivering cane. The Company took advantage of the opportunity to concentrate on cane development activities in the Nucleus Estate during the first and the second quarters.

The Factory operations resumed in the last month of quarter three after one year closure occasioned by acute cane shortage when farmers declined to supply cane for milling demanding payments of cane proceeds owed to them by the Company. Arrears balance of Kshs.74.5 Million had remained after the government released a grant of Kshs. 135 Million in May 2019. The balance was finally disbursed in December 2019. The strategic move to restart the company operations came after some spares were procured and a mini-maintenance undertaken on the plant in critical areas. Management also engaged the farmers who agreed to resume supply of cane to the mill for payment within two weeks of delivery.

Factory performance in quarter four was fairly good compared to the preceding quarter three with key performance indicators showing significant improvement. Mill extraction which had started at 80.73 improved to 88.46 after successful repair of a servo motor and governor for mill number four. This led to an enhanced conversion ratio of 14.53 achieved in the quarter four compared to 23.16 in quarter three. Factory time efficiency also improved from 40.33 in quarter three to 72.09 achieved in the quarter four implying a reduction in factory down time. Cane delivery to the mill also improved consistently as the Company honoured the agreed farmers payment schedule.

The cumulative impact of all these operations from quarter one to quarter four was a loss of Ksh 661 Million.

FUTURE PROSPECTS

The Company's 5- year strategic plan (2017/18- 2021/2022) major objective is to avail cane supply of 690,000 tons in 2017/2018 and increase progressively to 871,000 tons in the year 2021/2022 by the end of the 5- year period. Cane yield is also projected to increase from 48 TCH to 75 TCH. Though these targets were not achieved in the year under review, it is envisaged that the Government commitment to lease the sugar sector will revitalise the factory and mitigate the inadequate cane availability and supply to the factory.

The COMESA safeguard measures which were expected to lapse by Feb 2019 were extended by two more years. The Company's improved performance levels should enable it compete when that time lapses, the Company will continue to enhance factory efficiency and increase the branded sugar production. Cost management initiatives will continue to be implemented to return the company to profitability. More land in the catchment area is being put under cane to meet the factory optimum requirements and irrigation project is being enhanced to increase cane yield. The cane development program will continue into the next year where a further 3,000 hectares are targeted.

The plan to lease the five Government owned sugar mills is in progress. This process is expected to enhance competitiveness, profitability and sustainability of the Company.

BUSINESS REVIEW

Factory operational efficiency, access to adequate quality raw material and stability of market sugar price remain the key determinants of the Company's operational performance. The company continues to engage and/or contract farmers for cane supply. Improvement in cane availability is being pursued through planting of high sucrose and early maturing cane within the nucleus estate and improving extension services to farmers. Continued support to farmers with farm inputs and implements is on-going. All these efforts are aimed at improving the quantity and quality of the cane for milling. The cane testing unit which will peg cane payment on sucrose content thus ensuring the company gets value for money is almost complete.

The implementation of recommendations by the task force on Sugar Industry is expected to sanitize the regulatory regime, control sugar importation and create a level playing ground for all in the industry. The company is also keen on cost controls and in improved corporate communications 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 2019/2020 by setting targets in line with the Strategic plan 2017/2018-2021/2022 and the Approved Budget for 2019/2020. The Company did not achieve its profitability target given the conditions it operated in. However few performance indicators were achieved in the year under review due to challenging environment we operated in. There has been a commitment of the Company's Board, Management and members of staff to continually improve performance and productivity of the Company. However, operations of the Board has been affected by the revocation of appointed of board directors in July 2020. Nevertheless it is still expected that the Company continues to improve performance to achieve and surpass its boundaries of success.

DIVIDENDS

The company remains committed in giving a return on investment to all the shareholders as per its primary objective (Maximization of Shareholders' fund) through payment of dividends. However, due to aforementioned 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 dividends shall be paid accordingly.

APPRECIATION

On behalf of the outgoing Board of Directors, I wish to express my gratitude to all our cane farmers who have stood with us during the difficult times . I also wish to thank our suppliers, the Commodity Fund and the National Government for the loans given to us, cane transporters, cane development contractors and the sugar customers for their valued support in the last one year. Finally, I would also like to take this opportunity to sincerely thank the management and staff for their hard work and continued commitment to Company goals even during the difficult times experienced for the better part of the year. The outgoing Board is optimistic that performance will improve to meet targets for future Company sustainability.



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 30th June 2020

OVERVIEW

During the year under review, the Company experienced a number of challenges in its operations which led to the factory milling for four months. The Factory milling resumed in the last month of quarter three after one year closure occasioned by acute cane shortage when farmers declined to supply cane for milling demanding payments of cane proceeds owed to them by the Company. Part of the arrears (Kshs. 135 Million) was paid by the government in May 2019 leaving a balance of Kshs.74.5 Million which was paid in December 2019. The strategic move to restart the company operations was done after a mini-maintenance on plant after procurement of critical spares for areas which had challenges and management decision to engaged the farmers who agreed to resume supply of cane to the mill with a plan to be paid after two weeks after delivery.

PERFORMANCE REVIEW

i. Operations

The factory milled a total of 120,632 tons of cane in the year under review compared to 197,292 tons milled in FY 2019. The Nucleus Estate supplied 18,565 tons of cane compared to 32,608 tons supplied in FY 2019, representing 15% of the total cane supply while the farmers supplied 102,067 tons compared to 164,684 tons supplied in FY 2019 representing 85% of the total cane supply. The amount paid to farmers for cane supply was Ksh 378 Million compared to Kshs 619 Million paid to farmers in FY 2019.

Cane supplied was milled at a conversion ratio of 15.6 to produce 7,567 tons of sugar compared to 12,649 tons produced in FY 2019, the production represents a 40% decrease compared to the previous year. Sugar quality remained high as the Company complied with the Kenya Bureau of Standards (KEBS) requirements for Standardization Mark for brown sugar.

The average price of cane per ton remain stable at Kshs 3,750 compared to same price per ton of Kshs.3,750 in FY 2019. The mollassess and Sugar prices marginally increased in the market in the year under review compared to previous year. The average price per ton of sugar was Kshs. 83,716 compared to Ksh. 80,000 for FY 2019 .

The gross revenue generated in the year was Kshs. 621 Million compared to Kshs 1.2 Billion realised in FY 2019 representing 49% decrease owing to reduced sales due to four months milling. The cost of sales was Kshs.922 Million compared to Ksh. 1.2 Billion for FY 2019 due to decrease in production. Administration expenses decreased by 14% in the year under review owing to cost management strategies adopted. Financing costs reduced by 51% on application of Duplum rule on non-performing Commodity Fund loans.

ii. Financial Results

The overall performance for the year was an operating loss of Shs. 667 million arising from cane shortage and factory inefficiencies which led to four months milling. This was slightly higher than operating loss of Shs. 646 million recorded in the previous year.

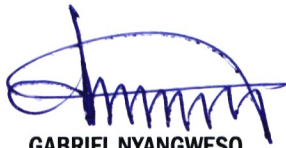
ISO 9001:2015 QUALITY MANAGEMENT SYSTEM

Chemelil Sugar Company Limited has made a strategic business decision to develop and implement a Quality Management System (QMS) across all departments of the Company. The implementation of the QMS is intended to improve and sustain the overall performance of the Company's business processes, products and services.

The Company has developed a roadmap and is committed to transit to the version of QMS, ISO 9001:2015.

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, Fisheries and Cooperatives 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

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

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

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

Board Meetings

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

Board Committees

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

1. Audit Committee

Members

Mr. Jacob Mananda
Mr. Kennedy Odhiambo
Ms. Jackline Kiiro
Mr. Gabriel Nyangweso- Managing Director (Ag)

Role and Functions

The Committee meets quarterly or as maybe necessary. It's responsibilities include; the review of interim and full year financial statements so as to ensure compliance with accounting standards and other disclosure requirements; the maintenance of the Company's system of accounting and internal controls; liaison with the external auditors of the Company and putting into effect their recommendations. The external auditors, internal auditors and the Company management may be called to attend any meetings of the Committee to clarify any issue as required by the Committee.

2. Human Resource and Finance Committee

Members

Ms. Christine Atieno	Chairman
Mr. Richard Aiyabei	
Mr. Kennedy Odhiambo	
Mr. David Oslany	
Mr. Gabriel Nyangweso	Managing Director(Ag)

Role and Function

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

3. Strategy and Technical Committee

Members

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

Role and function

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

The Board appoints other committees as and when required.

Communication with Shareholders

The Company is committed to ensuring that shareholders and stakeholders are provided with full and timely information about its performance. This is usually done through the distribution of the Company's Quarterly and Annual Reports to the National Treasury, Parliament and Parent Ministry on quarterly and yearly basis.

In this regard, the Company complies with its obligations on good corporate governance practices as contained in Mwongozo Code of Corporate Governance.

Board Evaluation and Performance

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

Conflict of Interest

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

Mwongozo Code of Governance

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

Risk Management Report

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

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

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Company appreciates 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 strives to ensure that the return on investment is shared with our stakeholders.

In the 2019/2020 Financial Year, the Company undertook various Corporate Social Responsibility (CSR) programs by offering the following:

- Donations to Schools, Orphanages and Churches
- Support of community projects i.e. Health Centre
- Donation of tree seedlings for environmental conservation

Health

The 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:-

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

Education

The Company has an elaborate school education programme with an annual budget of approximately Kshs.70 Million. The Company directly runs two schools (Chemelil Sugar Academy and Sugar Primary School) 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 Kenyan Premier League (KPL). 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 events.

DIRECTORS REPORT

The directors submit their report together with the audited financial statements of the Company for the year ended 30 June 2020 which disclose the state of affairs of the company.

1. BACKGROUND INFORMATION

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

2. PRINCIPAL ACTIVITY

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

3. RESULTS

	2020 Shs	2019 Shs
(Loss) before Tax	(667,412,122)	(646,775,480)
Tax	-	-
(loss) for the year	<u>(667,412,122)</u>	<u>(646,775,480)</u>

4. DIVIDEND

The directors do not recommend the declaration of a dividend for the year. (2019 Shs-Nil).

5. DIRECTORS

The directors who held office during the year and to July 2020 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. Auditor General carried out the audit for the year ended 30 June, 2020

BY ORDER OF THE BOARD


COMPANY CHAIRMAN
07-05-2021

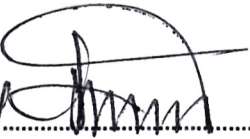
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 07 - 05 - 2021 and signed on its behalf by:


.....
CHAIRMAN


.....
MANAGING DIRECTOR

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Chemelil Sugar Company Limited set out on pages 16 to 42, which comprise of the statement of financial position as at 30 June, 2020, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Chemelil Sugar Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Management Act, 2012 and the Companies Act, 2015.

Basis for Qualified Opinion

1. Material Uncertainty on Going Concern

The statement of profit or loss and other comprehensive income indicates that during the year under review, the Company incurred an operating loss of Kshs.667,412,122 which raised its accumulated losses from Kshs.7,052,108,792 at the close of the previous year to Kshs.7,719,520,914 as at 30 June, 2020. The Company's current liabilities totalled Kshs.4,820,002,285 and current assets Kshs.570,128,792 resulting to a negative working capital of Kshs.4,249,873,493 as at 30 June, 2020.

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

Management has not disclosed the measures, if any, taken to reverse the unfavorable financial position and put the Company on the path to profitability.

2. Unconfirmed Balances

Several balances reflected in the financial statements were not supported with sufficient appropriate records or information, as explained in the following paragraphs:

2.1 Trade and Other Receivables

The statement of financial position reflects trade and other receivables totalling Kshs.186,668,450. However, the balance includes payables with debit balances totalling Kshs.100,308,363 which include payroll advances totalling Kshs.33,622,930. Management has not explained why the debit balances in the payables account were included in the trade and other receivables balance.

Further, review of the analysis provided for the balance indicated that some trade receivables had been outstanding for long periods of time. Management did not disclose actions taken to recover the debts, and did not confirm whether the Company had a policy for impairment of such debts.

In view of these issues, the validity, accuracy and extent of recoverability of the trade and other receivables balance totalling Kshs.186,668,450 as at 30 June, 2020 could not be confirmed.

2.2 Penalties and Interest on Tax Arrears

The statement of profit or loss and other comprehensive income reflects administrative expenses totalling Kshs.449,275,631, as further disclosed in Note 6 to the financial statements. The balance includes penalties and interest on tax arrears totalling Kshs.158,987,868.

Note 27 to the financial statements reflects penalties and interest on tax arrears totalling Kshs.995,682,233 which increased by Kshs.159,857,562 from the sum of Kshs.835,824,671 as at 30 June, 2019. However, the statement of profit or loss and other comprehensive income reflects an increase of Kshs.158,987,868 resulting to an unexplained variance of Kshs.869,694.

Further, ledger records provided for audit reflected an opening balance for penalties and interest on tax arrears totalling Kshs.836,705,679. However, the balance did not tally with the account's audited previous year balance amounting to Kshs.835,824,671 reflected in the audited financial statements for the previous year. No explanation was provided for the difference amounting to Kshs.881,008 between the two sets of records. In addition, there was no record to confirm that the penalties and interests balance had been certified by the Kenya Revenue Authority.

Therefore, the Company is in breach of Section 3(2)(a)(ii), Section 5 and Section 37 of Income Tax Act Cap 470 which requires employers to deduct Pay as You Earn (PAYE) at source and remit the deductions to the tax authorities before the 9th day of the subsequent month. In addition the Company may have breached Section 13(3) of the Value Added Tax Act Cap 476 which requires registered tax payers to remit VAT payable to tax authorities before the 20th day of the subsequent month.

In view of the delay in remitting the taxes, the accuracy of penalties and interest on tax arrears totalling Kshs.158,987,868 for the year ended 30 June, 2020 could not be confirmed.

2.3 Operating Income

The statement of profit or loss and other comprehensive income reflects other operating income totalling Kshs.82,506,490 which include a government grant balance totalling Kshs.74,541,179 provided to fund payment of debts owed to farmers. The balance was supported with a list of farmers that the Company was indebted to.

Although the list of farmers' bank accounts into which the amounts were to be deposited was provided for audit, record of the deposits made were unavailable and as a result, the occurrence of the deposits could not be confirmed.

Consequently, use of the grant totalling Kshs.74,541,179 for the intended purpose could not be confirmed.

2.4 Administrative Expenses

The statement of profit or loss and other comprehensive income reflects administrative expenses totalling Kshs.449,275,631 as disclosed in Note 6 to the financial statements.

The balance includes finance and administration department expenses totalling Kshs.128,938,972 which in turn include directors' allowances and expenses totalling Kshs.4,342,742 disclosed in Note 28 to the financial statements. Examination of the minutes of the Board indicated that only three (3) meetings were held during the year against the minimum of four (4) prescribed in the Mwongozo Code for State Corporations. Further, Management did not provide records supporting for payment. The missing records included the Board calendar, meeting invitation letters, signed attendance registers, schedules for payments and venues for meetings.

As a result of these anomalies, the accuracy, validity and propriety of the directors' allowances and expenses totalling Kshs.4,342,742 for the year ended 30 June, 2020 could not be confirmed.

2.5 Tax Recoverable

The statement of financial position reflects a tax recoverable balance totalling Kshs.15,183,641 as at 30 June, 2020 which was brought forward from the previous year. However, analyses indicating how the amount was arrived at were not provided for audit.

Consequently, the accuracy and validity of the tax recoverable balance totalling Kshs.15,183,641 as at 30 June, 2020 could not be confirmed.

2.6 Bank and Cash Balances

The statement of financial position as at 30 June, 2020 reflects cash and bank balance totalling Kshs.12,204,444 which includes cash in hand totalling Kshs.500,000. Records provided for audit indicated that the latter balance was lost through theft of

cash on transit. However, the Police report and deliberations of the Board of Directors on the theft were not provided for audit review and as a result the occurrence of the theft could not be confirmed.

In addition, bank reconciliation statements as at 30 June, 2020 reflected unpresented cheques totalling Kshs.1,864,111 that had overstayed and become stale. No explanation was provided by Management why these were not reversed in the cash book.

Further, the cash and cash equivalents balance totalling Kshs.12,204,444 in the statement of financial position as at 30 June, 2020 differs by Kshs.141,934 with the balance of Kshs.12,062,510 reflected in the statement of cash flows.

In view of these discrepancies, the accuracy and completeness of cash and cash equivalents balance totalling Kshs.12,204,444 as at 30 June, 2020 could not be confirmed.

2.7 Deferred Income

The statement of financial position reflects a deferred income balance totalling Kshs.99,882,408 which includes sugar and molasses pre-sales totalling Kshs.98,941,671 and Kshs.940,737 respectively.

However, sugar sales deliveries worth Kshs.99,882,408 that were denoted as pre-sales weighing more than 35 tons or more were not issued with the Company's weighbridge tickets since the weighbridge reportedly lacked capacity to weigh consignments beyond the stated tonnage.

As a result, the accuracy of the deferred income balance totalling Kshs.99,882,408 as at 30 June, 2020 could not be confirmed.

2.8 Trade and Other Payables

The statement of financial position reflects trade and other payables balance totalling Kshs.4,796,031,881 as disclosed in Note 27 to the financial statements. Examination of creditors' records indicated that the balance increased by Kshs.561,752,638 from Kshs.4,234,279,242 in 2018-2019, as indicated in the Appendix to this report.

Note 27 to the financial statements indicates that the trade and other payables includes staff and current deferred debtors with credit balances totalling Kshs.2,976,405 having decreased during the year by Kshs.74,528,231 from Kshs.77,504,636 as at 30 June, 2020. However, the ledger provided for audit reflected an opening balance totalling Kshs.2,264,205 for the account which was at variance with the balance reflected in the Note.

Consequently, the accuracy, validity and completeness of the staff and current debts with credit balances totalling Kshs.2,976,405 as at 30 June, 2020 could not be confirmed.

2.9 Pension Deductions

Included in the trade and other payables balance are payroll liabilities totalling Kshs.926,379,003 as at 30 June 202 as indicated in Note 27 to the financial statements. The balance includes un-remitted employees' pension contributions totalling Kshs.126,190,806 and the Company's contributions totalling Kshs.85,968,525.

The balance also includes National Hospital Insurance Fund (NHIF) arrears totalling Kshs.30,098,568 and National Social Security Fund (NSSF) arrears totalling Kshs.26,002,501. Records provided for audit indicated that failure to remit the pensions contributions had caused the Company's staff to be suspended from making contributions to staff retirement benefits scheme and had therefore put the welfare of the employees at risk. Consequently, the Company is in breach of the law and may be liable to pay penalties, interest, and may be exposed to litigation, all of which may result in wasteful expenditure.

Examination of pension records indicated that delay in remitting deductions made on employee salaries had resulted in payment of interest on penalties totalling Kshs.15,895,443 in the year under review. The delayed payments were contrary to Section 53 and 53A of the Retirement Benefits Act, 1997 which requires entities to promptly remit contributions made by employees, and resulted in the wasteful use of public funds.

Further, records indicating the amounts demanded by the pension bodies were not provided for audit and therefore the accuracy and validity of the payments could not be confirmed. In addition, the actual liabilities on pension payments as at 30 June, 2020 could not be confirmed.

2.10 Variances Between Statement of Budget and Actual Comparisons and Other Inaccuracies

Several balances reflected in the statement of budget and actual comparisons differ from those reflected in respect to identical accounts in other statements, as explained in the following paragraphs:

- (i) The statement reflects cost of sales less gain in fair value of cane totalling Kshs.887,731,631 which differs with the sum of Kshs.812,368,833 reflected on the statement of profit or loss and other comprehensive income totalling Kshs.922,726,031 less Note 4, fair value gain in cane amounting to Kshs.110,357,198 leading to a variance of Kshs.75,362,798.
- (ii) The statement reflects finance and administration costs totalling Kshs.128,328,272 which differ with the balance of Kshs.128,938,972 reflected against the account in the statement of profit or loss and other comprehensive income as reflected in Note 6 to the financial statements, resulting to a difference of Kshs.610,700.
- (iii) The statement reflects human resources costs totalling Kshs.139,464,629 whereas the statement of profit or loss and other comprehensive income reflects Kshs.139,441,679 in respect to the account.

In view of these anomalies, the accuracy, completeness and validity of the balances reflected in the financial statements for the year ended 30 June, 2020 could not be confirmed.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there were no key audit matters to report in the year under review.

Other Matter

1.0 Budgetary Control and Performance

1.1 Revenue

The statement of budget and actual comparison reflects budgeted revenue totalling Kshs.2,638,416,992 and actual revenue totalling Kshs.706,208,289 resulting in a shortfall Kshs.1,932,208,703 as indicated in the following table;

Revenue	Budget (Kshs.)	Actual (Kshs.)	Over (Kshs.)	Under (Kshs.)	Ratio of Utilization
Net Sales	2,611,424,848	621,264,676		1,990,160,172	24%
Operating Income	22,892,144	7,965,311		14,926,833	35%
Finance Income	4,100,000	3,015,723		1,084,277	74%
Amortization of GoK Grant	0	73,962,579	73,962,579	-	-
Total Income	2,638,416,992	706,208,289	73,962,579	2,006,171,282	27%

Management explained the shortfall of revenue as having resulted from closure of the milling activities for most of the year under review, lower than expected selling prices, and suspension of lending to farmers which in turn diminished income from interest.

1.2 Expenditure

The Company had budgeted to spend Kshs.2,481,844,392 but spent Kshs.1,367,599,593 during the year resulting in under-expenditure of Kshs.1,114,244,799 as indicated in the following table:

Expenses		Budget (Kshs.)	Actual (Kshs.)	Over (Kshs.)	Under (Kshs.)	% Utilization Ratio
1.	Cost of Sales Less Gain in Fair Value of Cane	2,065,039,272	887,731,631		1,977,307,641	42
2.	Finance and Administration Costs	141,158,000	128,328,272		12,829,728	91
3.	Human Resources Costs	173,837,120	139,464,629		34,372,491	80
4.	Finance Costs	101,810,000	37,191,750		64,618,250	37
5.	Penalties and Interest Charge	0	174,883,311	174,883,311		
	Total Expenditure	2,481,844,392	1,367,599,593	174,883,311	2,089,128,110	55

There was underspending on, administration and human resource costs which Management attributed to streamlined financial controls. The under-expenditure on finance costs was explained as having resulted from new financial lending regulations that reduced borrowing costs.

The Company made provisions amounting to Kshs.174,883,311 in the year under review for penalties and interest charges whereas no budget had been set aside for the item. No explanation was provided why the item had not been budgeted for.

2. Prior Year Issues

The audit report for the previous (2018/2019) financial raised several issues regarding balances reflected in the financial statements, as well as on effectiveness in use of public resources and on internal control. The status of the issues shall be confirmed after they are discussed by the Legislature.

Other Information

The directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for conclusion on the Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Officers Appointed in Acting Capacity

Review of personnel records indicated that the Company had 17 (seventeen officers) appointed in acting capacity for more than six months, some from far back as 2012. No explanation was provided for the failure to confirm the officers to the posts or advertise the vacancies.

Lack of substantive leadership in the respective departments and units may have constrained their contribution in fulfilling the Company's objectives.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on the Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Improperly Constituted Audit Committee

The statement of corporate governance on Page 11 of the annual report provides information on the Company's Board Committees which include three Standing Committees with specific delegated authorities and terms of reference. Among the three is the Audit Committee comprised of the four (4) members, including the Acting Managing Director.

Inclusion of the Acting Managing Director in the Audit Committee has diluted the capacity of Committee to provide independent oversight on the operations of the Company. In addition, it contravenes Regulation 174(6) of the National Government Regulations addition to paragraph (5) which requires majority of members appointed to the Audit Committee shall not be past or present employees of the entity,

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on 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; and
- (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.

Responsibilities of Management and Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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


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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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's 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 being a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

15 February, 2022

Appendix I

Unconfirmed Trade and Other Payables

Item	2019-2020 (Kshs.)	2018-2019 (Kshs.)	Variance (Kshs.)
1. Trade Payables	339,787,069	333,790,070	5,996,999
2. Cane Payables	279,278,454	285,438,631	(6,160,177)
3. Staff & Current Deferred Debts with credit Balance	2,976,405	77,504,636	(74,528,231)
4. Payroll Liabilities	926,379,003	633,299,012	293,079,991
5. Other Payables and Accruals	137,732,440	122,894,521	14,837,919
Total	1,686,153,371	1,452,926,870	233,226,501
Tax Arrears			0
6. VAT Payable	908,556,264	863,437,141	45,119,123
7. PAYE Payable	720,796,003	597,246,551	123,549,452
8. Withholding Tax Payables	10,734,144	10,734,144	0
9. Sugar Development Levy Arrears	474,109,867	474,109,867	0
10. Penalties and Interest on Tax Arrears	995,682,233	835,824,671	159,857,562
Total	3,109,878,511	2,781,352,374	328,526,137
Grand Total	4,796,031,882	4,234,279,244	561,752,638

Chemelil Sugar Company Limited
 Reports and Financial Statements
For the year ended June 30, 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

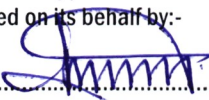
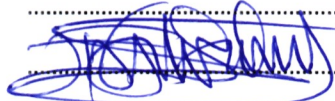
	Note	2020 KShs	2019 KShs
Revenue	2	545,542,878	1,063,991,957
Cost of Sales	3	<u>(922,726,031)</u>	<u>(1,287,013,761)</u>
Gross (loss)/profit		(377,183,153)	(223,021,804)
Fair Value gain in biological assets	4	110,716,198	22,054,516
Other operating income	5	82,506,490	139,168,584
Administrative expenses	6	(449,275,631)	(512,611,029)
Operating (loss)		(633,236,095)	(574,409,732)
Finance costs	9	(37,191,750)	(76,414,170)
Finance income	10	3,015,723	4,048,422
Profit/(Loss) before tax		(667,412,122)	(646,775,480)
Tax	12	-	-
Profit/(Loss) for the year		<u>(667,412,122)</u>	<u>(646,775,480)</u>
Other comprehensive income:			
Revaluation surplus on property, plant and equipment			1,476,088,683
Deffered tax on revaluation surplus of property, plant and equipment		-	-
Total comprehensive income/(loss) for the year		<u>(667,412,122)</u>	<u>829,313,203</u>
Profit/(Loss) per share	13	<u>(63.08)</u>	<u>(61)</u>
Total comprehensive income / (loss) per share	13	<u>(63.08)</u>	<u>78</u>

The notes on pages 22 to 43 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	2020 KShs	2019 KShs
Non-Current assets			
Property, plant and equipment	21	5,226,623,029	5,354,721,484
Biological assets – Bearer Plant	21(b)	<u>62,766,072</u>	<u>71,617,445</u>
		5,289,389,100	5,426,338,929
Current assets			
Biological assets - Consumable	22	127,541,968	25,498,533
Inventories	25	205,225,146	254,965,975
Loans to out growers	23	23,305,143	21,571,855
Trade and other receivables	24	186,668,450	167,639,858
Tax recoverable		15,183,641	15,183,641
Bank and cash balances	26	12,204,444	28,136,021
		<u>570,128,792</u>	<u>512,995,883</u>
TOTAL ASSETS		5,859,517,892	5,939,334,812
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	14	211,591,620	211,591,620
Asset revaluation reserve	15	4,614,544,226	4,614,544,226
Retained Earnings	15	<u>(7,719,520,914)</u>	<u>(7,052,108,792)</u>
*Shareholders' funds		<u>(2,893,385,068)</u>	<u>(2,225,972,946)</u>
Non-current liabilities			
Borrowings	16	3,528,613,831	3,491,985,569
Other accrued liabilities	18	264,404,437	253,380,081
Government grant	19	40,000,000	40,000,000
Deffered Income	20	<u>99,882,408</u>	<u>111,850,838</u>
Total non-current liabilities		<u>3,932,900,676</u>	<u>3,897,216,488</u>
CURRENT LIABILITIES			
Trade and other payables	27	4,796,031,881	4,234,279,242
Borrowings	16	14,270,618	24,112,241
Government grant	19
Dividends payable		<u>9,699,787</u>	<u>9,699,787</u>
Total current liabilities		4,820,002,285	4,268,091,270
TOTAL EQUITY AND LIABILITIES		5,859,517,893	5,939,334,812

The financial statements on pages 1 to 43 were approved and authorized for issue by the Board of Directors on 07-05-2021 and signed on its behalf by:-

.....) CHAIRMAN ) MANAGING DIRECTOR
) HEAD OF FINANCE, ACCA MNo. 0680452

STATEMENT OF CHANGES IN EQUITY

Notes	14 & 15	Share capital KShs.	Revaluation reserve KShs.	Retained Earnings KShs.	Total KShs.
As at 1 July 2018		211,591,620	3,138,455,543	(6,057,853,932)	(2,707,806,769)
As Previously Reported					
Prior year Adjustments				(682,196,488)	(682,196,488)
-Tax penalties and interest				35,195,066	35,195,066
-Fair value gain on Biological Assets				<u>300,000,000</u>	<u>300,000,000</u>
-Grant income amortisation				(6,405,333,312)	(3,055,286,149)
As restated		211,591,620	3,138,455,543	(6,405,333,312)	(3,055,286,149)
Changes during the year					
Revaluation surplus			1,476,088,683	(646,775,480)	1,476,088,683
Total comprehensive loss for the year			<u>4,614,544,226</u>	<u>(7,052,108,792)</u>	<u>(2,225,972,946)</u>
As at 30th June 2019		<u>211,591,620</u>	<u>4,614,544,226</u>	<u>(7,052,108,792)</u>	<u>(2,225,972,946)</u>
As at 1 July 2019		211,591,620	4,614,544,226	(7,052,108,792)	(2,225,972,946)
Prior Year Adjustments:		-	-	(667,412,122)	(667,412,122)
- Changes during the year:				(7,719,520,914)	(2,893,385,068)
- Revaluation surplus					
- Total comprehensive loss for the year			4,614,544,226	(7,719,520,914)	(2,893,385,068)
As at June 2020		211,591,620	4,614,544,226	(7,719,520,914)	(2,893,385,068)

STATEMENT OF CASH FLOWS

	Note	2020 KShs	Restated 2019 KShs
OPERATING ACTIVITIES			
Cash (used in) / generated from operations	29	11,198,794	(13,107,056)
Interest paid		(399,268)	(71,888)
Interest received		-	-
Net cash (used in) / generated from operating activities		<u>(10,799,526)</u>	<u>(13,178,944)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	21	(11,692,821)	(1,952,451)
Proceeds on disposal of property , plant and equipment		-	-
Net cash used in investing activities		<u>(11,692,821)</u>	<u>(1,952,451)</u>
FINANCING ACTIVITIES			
Insurance Premium Financing from DTB		-	11,142,158
Repayment of borrowings IPF		(7,482,223)	(2,180,074)
Repayment of borrowings KCB and AFFA loans		<u>(7,664,220)</u>	<u>(148,827)</u>
Net cash generated from financing activities		<u>(15,146,443)</u>	<u>8,813,257</u>
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		<u>(16,039,739)</u>	<u>(6,318,138)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>28,102,248</u>	<u>34,420,386</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26	<u>12,062,510</u>	<u>28,102,248</u>

The notes on page 20 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

IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted. This had no material effect on the Company's financial statements.

IFRS9 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.

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle on 8 December 2016, amending the following standards:

IFRS1 First-time Adoption of International Financial Reporting Standards: Deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

IFRS12 Disclosure of Interests in Other Entities: Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IAS28 Investments in Associates and Joint Ventures: Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition

The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) **New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2017 and not adopted in advance of the effective date.**

IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. It specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

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.

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 has adopted IAS 41 and 61 in valuation of Cane Bearer Plant, Cane Bearer Plant Work In Progress, Consumable Cane and Livestock.

(c) Revenue recognition

Revenue represents the value of sugar and molasses supplied by the company net of Value Added Tax, rebates and discounts.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

l) 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 for 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 for acquisition of assets, including non-monetary grants at fair value are presented in the statement of financial position as deferred income.

The deferred income arising from government grant is recognized as income on a systematic and rational basis over useful lives of the assets. Government grant whose purpose is to defray Company liabilities or expenses are recognized directly in the income statement.

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. 4,249,873,493 (2019: Shs. 3,755,095,387). The shareholders fund was Shs.(2,803,751,353) on 30 June 2020. The company has accumulated losses amounting to shs. 7,719,520,914 (2019: shs. 7,052,108,792). 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

	2020 Kshs	2019 Kshs
Gross sales	621,264,676	1,226,079,925
Less: Value Added Tax	(75,721,797)	(162,087,969)
Net Sales	<u>545,542,878</u>	<u>1,063,991,957</u>

Gross sales is comprising of the following:

Revenue from sale of milled local sugar	604,491,389	1,173,982,755
Revenue from sale of Molasses	<u>16,773,287</u>	<u>52,097,171</u>
Total revenue	<u>621,264,676</u>	<u>1,226,079,925</u>

3. Cost of sales

Cost of cane

Cost of milled cane-Nucleus Estate	100,391,605	202,217,686
Cost of milled cane- Outgrowers Farms	<u>378,291,413</u>	<u>619,438,463</u>
	478,683,017	821,656,148
Factory costs	461,176,259	465,349,640
Increase in closing inventory	<u>(17,133,246)</u>	<u>7,973</u>
Total cost of sales	<u>922,726,031</u>	<u>1,287,013,761</u>

4. Aggregate gain/(loss) arising from changes in fair value on biological assets (note 22)

Sugar plantation	110,357,198	21,588,516
Livestock	359,000	466,000
	<u>110,716,198</u>	<u>22,054,516</u>

5. Other operating income

Miscellaneous income	(188,424)	318,284
Gain/ (Loss) on disposal of Assets	(2,135,094)	(8,862,785)
Physical inventory adjustment	(990,531)	338,039
Grant income	74,541,179	135,527,402
Rental income	<u>11,279,360</u>	<u>11,847,643</u>
Total other operating income	<u>82,506,490</u>	<u>139,168,584</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2020 Shs	2019 Shs
6. Administrative expenses		
Finance and administration department	128,938,972	114,281,903
Human resource department	139,441,679	174,627,860
Penalties and interest on tax arrears	158,987,868	153,628,183
Interest on unremitted pension	15,895,443	70,073,082
Provision for bad and doubtful debts	<u>6,011,667</u>	<u>0</u>
Total administrative expenses	<u>449,275,631</u>	<u>512,611,029</u>

Included in Finance and administration costs are Directors allowances and Senior Management remunerations of Kshs,4,342,741 and Kshs. 12,478,854 respectively.

The tax penalties and interest relates to current outstanding tax payable to KRA. This has been calculated based on applicable tax laws and rates. The company has accrued interest on unremitted pension contributions as determined by the Scheme administrators as at 30th June 2020.

Provisions were made in the year for sugar debtor of Ksh 6,796,930 and there was reduced provisions for other debtors of Ksh,785,262.

7. Operating loss

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

	2020 Shs	2019 Shs
Depreciation on property, plant and equipment (Note 20)	139,791,278	137,327,249
(Gain)/loss on disposal of property, plant and equipment	2,135,094	8,862,785
Auditors' fees	3,937,193	3,109,785
Directors' emoluments:- Allowances	4,342,741	5,689,036
Loan outgrowers- impairment	-	-
Repairs and maintenance	128,715,235	142,129,121
Staff costs (note 8)	<u>452,350,520</u>	<u>495,191,892</u>

8. Staff costs

Salaries and wages	425,741,303	475,482,007
Leave pay and allowance	1,968,000	3,155,930
Gratuity	2,114,084	
Leave liability	7,113,506	
Chairmans Remuneration	1,044,000	814,463-
Pension fund contribution:		
-Defined contribution scheme	13,021,027	14,034,292
-National Social Security Fund	<u>1,328,600</u>	<u>1,705,200</u>
	<u>452,350,520</u>	<u>495,191,892</u>

9. Finance costs

Bank interest and penalties	399,268	1,668,541
Loan interest	<u>36,792,482</u>	<u>74,745,629</u>
Total finance costs	<u>37,191,750</u>	<u>76,414,170</u>

Loan interest mainly arises from Loans sourced from Commodities Fund charged at the rates of 3-6%. The Company also has a bank loan and an Insurance Premium Finance loan which accrue interest at the annual rate of 14%p.a and flat rate of 2.55% respectively.

10. Finance income

Interest income	<u>3,015,723</u>	<u>4,048,422</u>
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This represents interest income from loans advanced by the Company to farmers. The outstanding loans to farmers earn interest income at the rate of 12% p.a. on principal loan.

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2020	2019
	Shs	Shs
12. Tax		
Current tax	-	-
Deferred tax charge (note17)	-	-

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

(Loss) before tax	<u>(667,412,122)</u>	<u>(646,775,480)</u>
Tax calculated at a tax rate of 30% (2019: 30%)	<u>(202,223,636)</u>	<u>(194,032,644)</u>
Tax effect of:		
-Deferred tax not recognized	-	-
-Expenses not deductible for tax purposes	-	-
Tax charge	-	-

13. Loss per share

Loss per share is calculated by dividing the (loss) attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year

Loss attributable to equity holders	<u>(667,412,122)</u>	<u>(646,775,480)</u>
Weighted average number of shares	<u>10,579,581</u>	<u>10,579,581</u>
Loss per share	<u>(63.08)</u>	<u>(61.13)</u>
Total comprehensive income/(Loss) per share	<u>(63.08)</u>	<u>78.39</u>

14. Share capital

Authorised, issued and fully paid

10,579,581 ordinary shares of Shs. 20 each	<u>211,591,620</u>	<u>211,591,620</u>
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15. Revaluation reserve

Property, plant and equipment	<u>4,614,544,226</u>	<u>4,614,544,226</u>
Property, plant and equipment		
-Freehold land	2,000,000,000	2,000,000,000
-Land and buildings	1,684,689,366	1,684,689,366
-Plant equipment and machinery	<u>929,854,860</u>	<u>929,854,860</u>
	<u>4,614,544,226</u>	<u>4,614,544,226</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	<u>600,000,000</u>	<u>600,000,000</u>
At end of year	2,000,000,000	2,000,000,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Revaluation reserve (continued)	2020 Shs	2019 Shs
Buildings		
At start of year	1,079,671,616	1,079,671,616
Movement in revaluation	605,017,750	605,017,750
Transfer of excess depreciation	-	-
Deferred tax on excess depreciation transfer	=	=
	<u>1,684,689,366</u>	<u>1,684,689,366</u>
Plant equipment and machinery		
At start of year	658,783,927	658,783,927
Movement in revaluation	271,070,933	271,070,933
Movement on disposal	-	-
Transfer of excess depreciation	-	-
Deferred tax on excess depreciation transfer	=	=
At end of year	<u>929,854,860</u>	<u>929,854,860</u>

Reserves are not distributable.

16. Borrowings

The borrowings are made up as follows:

	2020 Shs	2019 Shs
Non-current		
Bank loan	-	-
Kenya Sugar Board loan	<u>3,528,613,831</u>	<u>3,491,985,569</u>
Total	<u>3,528,613,831</u>	<u>3,491,985,569</u>
Current		
Bank overdraft (note 26)	141,934	33,773
Insurance Premium Financing loan	-	7,482,223
Bank loan	<u>14,128,684</u>	<u>16,596,244</u>
	<u>14,270,618</u>	<u>24,112,241</u>
Total borrowings	<u>3,542,884,449</u>	<u>3,516,097,810</u>

Borrowings are secured as follows:

- a) The Company has a composite banking facility with KCB bank secured by debentures amounting to Shs. 145,000,000 over the assets of the Company ranking pari passu with Commodity Fund; Legal charge over property of the Company identified as L.R Nos. 11840, 1611/4 and 1612/4; and Letters of awareness from parent Ministry of Agriculture, Livestock, Fisheries and Irrigation for sum of Shs. 145,000,000. The utilization of this facility as at 30 June 2020 was Shs. 14,128,684 (2019- Shs. 16,596,244) leaving undrawn facility amounting to Shs. 130,871,316.
- b) The Company's outstanding loans from Commodity Fund are secured by debentures amounting to Shs. 1,409,487,912 over the assets of the Company ranking pari passu with KCB Bank.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 borrowings (continued)

	2020 %	2019 %
Kenya Sugar Board Loan	3-6	3-6
Bank overdraft/KCB Loan	<u>14</u>	<u>14</u>

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

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

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

	2020 Shs	2019 Shs
Maturity of non-current borrowings		
Between 1 and 2 years	3,347,987,379	3,331,852,319
Over 2 years	<u>180,626,452</u>	<u>160,133,250</u>
	<u>3,528,613,831</u>	<u>3,491,985,569</u>

During the year, the company defaulted on loan agreements relating to Kenya Sugar Board by not honouring the repayment of principal and interest amounting to Shs. 100,400,035 due to cash flow constraints.

Borrowings from this institution amounted to 3,528,613,831 (2019: Shs.3,491,985,569) as at the year end. This includes interest payable of Shs. 941,696,959 (2019: 905,068,697) which remained unpaid as at 30 June 2020. The management expects to meet all contractual obligations in the future.

During the year, the new movement in loans from Commodities Fund was as follows :

	2020 Shs	2019 Shs
At start of the year	3,491,985,569	3,421,405,574
Proceeds during the year	-	-
Interest charge	36,792,482	74,596,802
Repayment during the year	(164,220)	(4,016,806)
At end of year	<u>3,528,613,831</u>	<u>3,491,985,569</u>

During the year, the new movement in loans from KCB was as follows :

	2020 Shs
At start of the year	16,596,245
Proceeds during the year	5,032,440
Interest charge	0
Repayment during the year	(7,500,000)
At end of year	<u>14,128,685</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% (2019: 30%). The movement of the deferred tax account is as follows:

	2020 Shs	2019 Shs
As at year start	-	-
Statement of comprehensive income (credit)	-	-
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 Shs	(Credit)/charge to statement of comprehensive income Shs	At end year Shs
Deferred tax liabilities			
Property, plant and equipment			
-Historical cost	(802,897)	(7,398,393)	(8,201,290)
-Revaluation surplus	(1,072,311,198)	116,040,418	(956,270,780)
-Biological assets	<u>(21,485,234)</u>	<u>(35,607,179)</u>	<u>(67,092,412)</u>
	<u>(1,094,599,328)</u>	<u>73,034,846</u>	<u>(1,021,564,482)</u>
Deferred tax assets			
Other temporary differences	91,280,478	(11,959,147)	79,321,331
Tax loss carried forward	<u>1,003,318,850</u>	<u>(61,075,699)</u>	<u>942,243,151</u>
	<u>1,094,599,328</u>	<u>(73,034,846)</u>	<u>1,021,564,482</u>
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. 7,719,520,914 (2019: Kshs. 7,052,108,792) because it is not expected that the company will have taxable profits in the foreseeable future against which 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:

	Gratuity Kshs	Provision for long- term service dues Kshs	Provision for outstanding leave days Kshs	Total Kshs
At 1 July 2018	10,162,236	233,704,457	17,459,087	261,325,780
Adjustment during the year	1,088,865	(7,326,478)	(1,708,086)	(7,945,699)
Payment during the year	-	-	-	-
At 30 June 2019	<u>11,251,101</u>	<u>226,377,979</u>	<u>15,751,001</u>	<u>253,380,081</u>
At July 2019	11,251,101	226,377,979	15,751,001	253,380,081
Adjustment during the year	2,114,084	2,739,165	6,171,107	11,024,356
Payment/Transfers during the year.	-	-	-	-
At 30 June 2020	<u>13,365,185</u>	<u>229,117,144</u>	<u>21,922,108</u>	<u>264,404,437</u>

19. Government grants

Gok/State Department of Agriculture grants

	<u>2020</u>	<u>2019</u>
At 1 July 2019		340,000,000
Prior year Adjustment		
-Amortization		(300,000,000)
At 1 July	40,000,000	40,000,000
Amount received in the year	74,541,179	135,527,402
Recognised in Income Statement	(74,541,179)	(135,527,402)
As at 30 June 2020	<u>40,000,000</u>	<u>40,000,000</u>

The grant relates to interest free advance of Kshs 40 million from State Department of Agriculture and Kshs 74.5 Million from Government of Kenya to the Company which were utilized in settling farmers arrears. The grant of Kshs. 74.5 Million was recognized as income in the year.

20. Deferred Income

	<u>2020</u> Shs	<u>2019</u> Shs
Prepaid Sugar and molasses	99,882,408	111,850,837

Deferred income consist of pre-sales of sugar and of molasses amounting to Kshs. 98,941,671 and Kshs. 940,737 respectively. These will be recognized as revenue when the stocks are delivered and invoiced.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21.a) Property, plant and equipment

Year ended 30 June 2020

COST OR VALUATION

As at 1 July 2019	2,000,000,000	1,956,480,000	1,515,183,871	106,530,108	-	5,578,193,979
Revaluation surplus	-	-	-	-	-	-
Additions	-	-	5,438,596	6,254,225	-	11,692,821
At 30 June 2020	2,000,000,000	1,956,480,000	1,520,622,467	112,784,333	-	5,589,886,800

COMPRISING

Cost	-	3,551,424	891,843,123	115,960,584	-	1,011,355,131
Valuation	2,000,000,000	1,952,928,576	628,779,344	(3,176,251)	-	4,578,531,669
DEPRECIATION	2,000,000,000	1,956,480,000	1,520,622,467	112,784,333	-	5,589,886,800

At 1 July 2019

223,472,493

Reversal of Accumulated Dep.

On Disposal

=

=

=

=

=

=

=

=

=

139,791,278

5,920,247

84,959,030

48,912,000

170,358,745

95,081,026

17,703,307

363,263,771

5,226,623,029

NET CARRYING AMOUNT

At 30 June 2020

5,226,623,029

Property, plant and equipment were professionally valued in 2018 by Tysons Limited, independent valuers. Valuations were made on the open market basis for freehold land and buildings and on replacement cost basis for plant, equipment and machinery. The carrying amounts of the assets were adjusted to the revalued amounts and the resultant surplus net of deferred tax was credited to the asset revaluation reserve in equity. In the opinion of the directors, there is no impairment of all classes of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21.b) Property, plant and equipment

Year ended 30 June 2019	Freehold land KShs	Buildings and roads KShs	Plant, equipment and machinery KShs	Motor vehicles and other equipment KShs	Capital work- in-progress KShs	Total KShs
COST OR VALUATION						
As at 1 July 2018						
At previously Reported	1,400,000,000	1,555,640,000	1,763,990,601	116,809,657	-	4,836,440,258
Revaluation surplus	600,000,000	400,840,000	(248,806,730)	(12,232,000)	-	739,801,270
Additions	-	-	-	1,952,451	-	1,952,451
At 30 June 2019	<u>2,000,000,000</u>	<u>1,956,480,000</u>	<u>1,515,183,871</u>	<u>106,530,108</u>	-	<u>5,578,193,979</u>
COMPRISING						
Cost	-	3,551,424	886,404,527	109,706,359	-	999,662,310
Valuation	<u>2,000,000,000</u>	<u>1,952,928,576</u>	<u>628,779,344</u>	<u>(3,176,251)</u>	-	<u>4,578,531,669</u>
	<u>2,000,000,000</u>	<u>1,952,928,576</u>	<u>1,515,183,871</u>	<u>106,530,108</u>	-	<u>5,578,193,979</u>
DEPRECIATION						
At 1 July 2018	-	204,177,750	503,627,432	114,627,475	-	822,432,657
Reversal of Accumulated Dep.	-	(204,177,750)	(501,091,609)	(31,018,054)	-	(736,287,413)
Charge for the year	-	<u>48,912,000</u>	<u>82,863,892</u>	<u>5,551,357</u>	-	<u>137,327,249</u>
At 30 June 2019	-	<u>48,912,000</u>	<u>85,399,715</u>	<u>89,160,778</u>	-	<u>233,472,493</u>
NET CARRYING AMOUNT						
At 30 June 2019	<u>2,000,000,000</u>	<u>1,907,568,000</u>	<u>1,429,784,156</u>	<u>17,369,330</u>	-	<u>5,354,721,484</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. c) Property, plant and equipment

	Cane Bearer Plant	Cane Bearer plant capital work- in-progress	Total
	Shs	Shs	Shs
AT JULY 1, 2018			
Cost/Valuation			
Cost (As previously reported)	-	-	-
Prior year adjustment	162,020,509	5,336,643	167,357,152
Cost (As restated)	162,020,509	5,336,643	167,357,152
Accumulated Depreciation			
As previously reported	-	-	-
Prior year adjustment	(97,769,659)	-	(97,769,659)
Restated Accumulated Depreciation	(97,769,659)	-	(97,769,659)
Net carrying amount	64,250,849	5,336,643	69,587,492
YEAR ENDED 30 JUNE 2019			
Opening carrying amount	64,250,849	5,336,643	69,587,492
Additions	-	29,911,825	29,911,825
Disposals	(8,936,185)	-	(8,936,185)
Transfers from capital work in progress	12,664,477	(12,664,477)	-
Depreciation Charge for the year	(18,945,687)	-	(18,945,687)
At JUNE 30, 2019	49,033,454	22,583,991	71,617,445
Cost or Valuation	142,681,173	22,583,991	165,265,164
Accumulated depreciation	(93,647,719)	-	(93,647,719)
Net carrying amount (valuation basis)	49,033,454	22,583,991	71,617,445
Net carrying amount (cost basis)	49,033,454	22,583,991	71,617,445
AT JULY 1, 2019			
Cost/ Valuation	142,681,173	22,583,991	165,265,164
Accumulated Depreciation	(93,647,719)	-	(93,647,719)
Net carrying amount	49,033,454	22,583,991	71,617,445
YEAR ENDED 30 JUNE 2020			
Cost/Valuation			
Cost (As previously reported)	116,591,693	48,673,471	165,265,164
Prior year adjustment	26,089,480	(26,089,480)	-
Cost (As stated)	142,681,173	22,583,991	165,265,164
Accumulated Depreciation			
As previously reported	(93,647,471)	-	(93,647,471)
Prior year adjustment	-	-	-
Restated Accumulated Depreciation	(93,647,471)	-	(93,647,471)
Net carrying amount	49,033,454	22,583,991	71,617,445
YEAR ENDED 30 JUNE 2020			
Additions	-	7,848,545	7,845,545
Disposals	(2,135,094)	-	(2,135,094)
Transfers from capital work in progress	29,196,994	(29,196,994)	-
Depreciation charge for the year	(14,564,824)	-	(14,564,824)
At 30 June 2020	61,530,530	1,235,542	62,766,072
Cost or Valuation	157,719,064	1,235,542	158,954,606
Accumulated depreciation	(96,188,653)	-	(96,188,653)
Net carrying amount (valuation basis)	61,530,530	1,235,542	62,766,072
Net carrying amount (cost basis)	61,530,530	1,235,542	62,766,072

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 BIOLOGICAL ASSETS-CONSUMABLE

	<u>2020</u>	<u>2019</u>
Consumable growing cane	126,056,968	24,372,533
Consumable asset-Livestock	1,485,000	1,126,000
Total biological assets	<u>127,541,968</u>	<u>25,498,533</u>

a) Consumable Growing Cane

	<u>2020</u>	<u>2019</u>
At beginning of the year (As previously reported)	24,372,532	93,103,472
- Change in Accounting Estimates	-	(34,870,386)
At beginning of the year (As restated)	24,372,532	58,233,086
Decrease due to harvest at fair value less point of sale costs	(8,672,762)	(55,449,070)
	<u>15,699,770</u>	<u>2,784,016</u>
Gain arising from changes in fair value attributable to physical changes	110,357,198	20,484,096
Gain arising from changes in fair value attributable to price changes	-	1,104,421
Fair value gain during the year	<u>110,357,198</u>	<u>21,588,516</u>
Carrying amount at the end of the year	<u>126,056,968</u>	<u>24,372,533</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

b) Consumable Asset-Livestock

	<u>2020</u>	<u>2019</u>
At beginning of the year	1,126,000	660,000
Prior year Adjustment	-	-
At the beginning of the year (As stated)	1,126,000	660,000
Increase due to new acquisitions and births	415,000	38,889
Decrease due to slaughter or sale	<u>(200,000)</u>	<u>(314,889)</u>
	1,341,000	384,000
Gain attributable to biological transformation	56,000	256,000
Gain arising from price changes	88,000	486,000
Fair value gain during the year	144,000	742,000
Carrying amount at the end of the year	<u>1,485,000</u>	<u>1,126,000</u>

The Company keeps dairy cattle (biological assets) in its Academy Section whose produce is used within the school to reduce boarding expenses. The Company has accounted for its biological assets in accordance with revised IAS 41 and IAS 16.

23. Loans to Outgrowers

Co-operative societies	376,142,869.62	374,892,022
Large and medium scale farmers	53,357,283.43	52,874,843
Transport and equipment loans	<u>1,303,753.60</u>	<u>1,303,754</u>
	430,803,906.65	429,070,619
Less: impairment		
Co-operative societies	(365,958,107.80)	(365,958,108)
Large and medium scale farmers	(40,706,920.47)	(40,706,920)
Transport and equipment loans	<u>(833,735.75)</u>	<u>(833,736)</u>
	<u>(407,498,764.02)</u>	<u>(407,498,764)</u>
	<u>23,305,143</u>	<u>21,571,855</u>

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Trade and other receivables	2020 KShs	2019 KShs
Trade receivables	46,838,761	44,327,692
Less : Provision for impairment	<u>(36,310,920)</u>	<u>(29,513,990)</u>
Net trade receivables	<u>10,527,841</u>	<u>14,813,702</u>
Other receivables	79,825,693	86,134,969
Less : Provision for impairment	<u>(43,013,206)</u>	<u>(43,798,468)</u>
Net other receivables	<u>36,812,487</u>	<u>42,336,501</u>
Deposits and prepayment	39,019,759	28,939,241
Payables with Debit Balances		
Trade Payables	8,563,643	8,635,896
Small Scale Farmers	34,203,536	25,434,303
Large Scale Farmers	22,799,008	15,070,314
Payroll Advances	33,622,930	31,290,656
Other Payables	<u>1,119,246</u>	<u>1,119,246</u>
	<u>100,308,363</u>	<u>81,550,415</u>
Trade and Other Receivables	<u>186,668,450</u>	<u>167,639,859</u>

In the opinion of the directors, the carrying amounts of trade and other receivables approximate to their fair value. The company's credit risk arises from trade and other receivables. The directors have made a provision for the portion of the receivables whose recovery is in doubt. Individually impaired receivables mainly relate to customers, who are in unexpectedly difficult economic situations. These have been fully provided for as stated above.

Payables with Debit balances have been reclassified as receivables.

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

25. Inventories

	2020 Kshs	2019 Kshs
Milled sugar	17,214,216	-
Factory and field stores	242,130,754	256,750,141
Milled sugar-in-process	18,771,225	0
Unmilled cane	1,500,000	-
Filling station	0	833,187
Molasses	387,750	468,720
Molasses in process	0	-
Stationery`	2,294,882	1,922,478
Medicines	1,149,392	1,021,358
Goods-in-Transit	<u>4,639,775</u>	<u>76,832,939</u>
	288,087,994	337,828,822
Less; Impairment for obsolete and slow moving inventories	<u>82,862,848</u>	<u>82,862,848</u>
	<u>205,225,146</u>	<u>254,965,975</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. Cash and Cash equivalents

	2020 Shs	2019 Shs
Cash at bank and in hand	12,204,444	28,136,021
Short-term bank deposits	-	-
	<u>12,204,444</u>	<u>28,136,021</u>

Breakdown of Cash at bank and in hand is as follows:

Name	Ledger Number	Amount (Kshs.)
Cash In Hand	5510	500,000
Co-operative Bank(K) Ltd.	5523	552,973
KCB - Chemelil Sugar Academy	5524	1,713,513
Co-operative Bank-Project A/C	5526	854,389
KCB - A/C 118-099-5716	5527	6,811,924
CHEMELIL SUGAR ACADEMY - PTA	5528	1,759,258
C-OP.BANK-CHEMELIL HEALTH CEN	5537	<u>12,386</u>
		<u>12,204,444</u>

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

	2020 Shs	2019 Shs
Cash at bank and in hand	12,204,444	28,136,021
Short-term bank deposits	-	-
Bank overdrafts (note 16)	<u>(141,934)</u>	<u>(33,773)</u>
	<u>12,062,510</u>	<u>28,102,247</u>

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

27. Trade and other payables

	2020 shs	2019 Shs
Trade payables	339,787,069	333,790,070
Cane payables	279,278,454	285,438,631
Staff & Current Defferred Debts with Credit bal.	2,976,405	77,504,636
Payroll liabilities	926,379,003	633,299,012
Other payables and accruals	<u>137,732,440</u>	<u>122,894,521</u>
	<u>1,686,153,370</u>	<u>1,452,926,869</u>
Tax Arrears		
VAT Payable	908,556,264	863,437,141
PAYE Payable	720,796,003	597,246,551
Withholding Tax Payable	10,734,144	10,734,144
Sugar Development Levy Arrears	474,109,867	474,109,867
Penalties and Interest on Tax Arrears	<u>995,682,233</u>	<u>835,824,671</u>
	<u>3,109,878,510</u>	<u>2,781,352,373</u>
Total	<u>4,796,031,880</u>	<u>4,234,279,242</u>

The Directors have made provisions for penalties and interest payable on tax arrears amounting to Shs 995,682,233. Of this amount Shs. 158,987,868 arose during the current year while Shs 835,824,671 relates to periods before 30th June 2019. Tax penalty amount of Kshs. 869,694 classified as other payables and accruals in the financial year 2019 was reclassified as penalties and interest on tax arrears in financial year 2020.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. Related party transactions and balances

Commodity Fund loans

The Company is a related party to Agriculture and Food Authority (AFA) by virtue of common ownership by the ultimate parent, the Government of Kenya, through the state department of Crop Development, Ministry of Agriculture, Livestock, Fisheries and Irrigation. In addition, AFA is the regulatory arm of the Ministry under which both Sugar Companies and the Commodities Fund fall. The Company has obtained loans from Commodities Fund. Transactions with AFA/Commodities Fund are detailed in note 16.

Directors and Executive staff

During the year Kshs.4.3 Million was incurred on Directors allowances and expenses while Kshs. 12.5 Million was spent on Senior Management salaries and allowances.

29. Cash generated from /(used in) operations

	2020 Shs	Restated 2019 Shs
Reconciliation of loss before tax to cash (used in) operations		
Loss before tax	(667,412,122)	(646,775,480)
Adjustment for:		
Depreciation on property, plant and equipment (note 21)	139,791,278	137,327,249
(Gain)/loss on disposal of property, plant and equipment	2,135,094	8,684,378
Gain on valuation of biological assets (note 4)	(110,716,198)	(22,054,516)
Interest income	(3,015,723)	(4,048,422)
Interest expense	37,191,750	76,414,170
Penalties and Interest	212,075,061	223,701,265
KCB Loan valuation charges	5,032,440	
Decrease in other accrued liabilities (note 18)	11,024,356	(7,945,699)
Changes in working capital		
-Inventories (note 25)	49,740,829	(10,319,419)
-Trade and other receivables (note 24)	(19,028,591)	403,572
-Loan to outgrowers (note 23)	(1,733,287)	1,050,709
-Restricted cash and cash equivalents	-	-
-Trade and other payables	<u>356,113,908</u>	<u>230,455,138</u>
-Cash (used in) operations	<u>11,198,794</u>	<u>(13,107,056)</u>

30. Contingent liabilities

The company is a defendant in various litigations and claims amounting to Kshs. 660 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 an effect on the operations of the Company that is materially at variance with the amount.

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 operations are localised in Kenya and its financial statements are denominated in Kenya Shillings. Exposure to foreign currency risk is therefore limited only to transactions involving import of goods and services and outstanding bills. The scale of such transaction was low in the year to 30 June 2018 and exposure is considered negligible.

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 2020, 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 (2019: Shs. 8,000,000) arising mainly as a result of higher interest expense on variable borrowings. The removal of capping of interest rates by the Government has increased exposure to the risk.

Price risk

The Company realized unfavourable sugar prices in the second half of the year due to unrestricted importation of sugar causing glut in the market.

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, continuous monitoring of actual cash flows and regular review of forecasts as well as 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 internally generated funds and borrowings from Commodity Fund and Kenya Commercial Bank Limited.

33. Country of incorporation

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

34. Presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

35. Post Balance Sheet events

The Cabinet Secretary for Agriculture through Kenya gazette notice in July 2020 revoked appointment of Board of Directors to pave way for leasing of Chemelil Sugar Company Limited.

36. Statement of budget and actual comparisons

The milling capacity and revenue budget for FY 2019/2020 was based on the assumption that the Company would obtain funding for plant maintenance but this never materialized. In addition, the Company experienced operational challenges due to shortage of milling cane in the zone during the year under review. The factory milled for only 4 months during the financial year. This led to unfavourable variance in revenue generation and overall loss in the year.

REVENUE	BUDGET	ACTUAL	VARIANCE	EXPLANATION
Net Sales	2,611,424,848	621,264,676	(1,990,160,172)	The Company sold 7,326 tons sugar at average net price of Sh 72,169 instead of budgeted 32,432 tons at net price Sh 78,000.
Operating Income	22,892,144	7,965,311	(14,926,833)	Rent income of Sh11m has been netted down by Sh2m loss on disposal of bearer plant. Opportunity to sell scrap metal and other items of Sh.6m normally retained after OOC maintenance was missed.
Finance Income	4,100,000	3,015,723	(1,084,277)	During the period under review, the Company did not give out loans to Farmers due to limited funds. The Company suspended milling operation from March 2019 and only resumed in March 2020.
Armortisation of GoK grant	-	73,962,579	73,962,579	The GoK grant for settling cane arrears had not been anticipated while developing the budget.
Total income	2,638,416,992	706,208,289	(1,932,208,703)	
Expenses				
Cost of sales and less gain in fair value of cane	2,065,039,272	887,731,631	1,177,307,641	The Company bought 102,067 tons cane at Sh3,750 per ton instead of 352,792 tons at Sh3,750 thereby not absorbing Sh. 940 M on value of cane. In addition maintenance and process materials cost budget was underabsorbed by Sh 310 M due to missed maintenance and low production.
Finance and Administration costs	141,158,000	128,328,272	12,829,728	-At the lower than budgeted level of operation, the Company placed tight controls on administrative expenditure as part of cost management.
Human Resources Costs	173,837,120	139,464,629	34,372,491	-Only minimum inhouse trainings and housing repairs were undertaken as the Company could not fully fund the budget.
Financing Costs	101,810,600	37,191,750	64,618,850	The original budget had anticipated higher financing cost however application of Duplum rule on non-performing Commodity/AFFA loans reduced the cost of financing.
Penalties and interest charge	-	174,883,311	(174,883,311)	Penalties and interest on unremitted taxes and pension contributions were provided for in the year.
Total expenditure	2,481,844,992	1,367,599,593	1,114,245,399	
Surplus/(Deficit)for the period	156,572,000	(661,391,304)	(817,963,304)	