

REPUBLIC OF KENYA

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KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2013**

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Chemelil Sugar Company Limited
Annual report and financial statements
For the year ended 30 June 2013

COMPANY INFORMATION (Continued)

PRINCIPAL BANKERS

- : Kenya Commercial Bank Limited
- : P.O. Box 17, 40100
- : KISUMU

- : Co-operative Bank of Kenya Limited
- : P.O. Box 1511, 40100
- : KISUMU

LEGAL ADVISORS

- : Migos Ogamba & Company
- : P.O. Box 3842, 40020
- : KISII

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

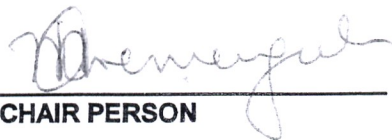
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years and in conformity with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486). The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 30 June 2013 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

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

Approved by the board of directors on 11/03 2014 and signed on its behalf by:



CHAIR PERSON



MANAGING DIRECTOR

REPORT OF THE CHAIRPERSON

It is my pleasure once again to report on the performance of Chemelil Sugar Company Limited for the year ended 30 June 2013 as follows:

Overview

The Company continued to record low performance in the year under review compared to 2012/2013 financial year due to closure of factory a major rehabilitation. The overall performance for the year was an operating loss arising from low throughput and unfavorable TS/TC.

Operations

A total of 140,527.13 tonnes of cane was ground in the year as compared to 319,730 tonnes the previous year. The Nucleus Estate supplied 28,570.13 tonnes during the year as compared 53,454 tonnes of cane in 2012 representing 20% of the total cane supply while the farmers supplied 111,957 tonnes representing 80% of cane worth KShs 391 million.

All the cane supplied was ground at a TC/TS ratio of 19.06 to produce 7,373.79 during the year as compared to 16,752 tonnes of sugar the previous year. The production represents a 55% decrease compared to the previous year. Sugar quality remained high as the Company retained the Kenya Bureau of Standards (KEBS) Diamond Mark of Quality brown sugar. The Company is committed to expanding its market share by increasing sales of commodity and branded sugar.

The company carried out rehabilitation of the factory rehabilitation during the year. Major refurbishments were done on pre mills, mills boilers and process house among other area. All these resulted in improvement in all the key parameters in the factory. By the end of February 2014, the factory recorded a TC/TS of 11.77, factory time efficiency of 71.4% and cost per tonne of KShs. 19,309.

During the year the Company received a total of KShs. 510 million from Kenya Sugar Board for both factory rehabilitation and payment of farmers' arrears. The Company utilized KShs. 450 million of the loan to undertake a major rehabilitation of the factory while the remaining 60 million was used to settle farmers arrears. The Company received approval of KShs.120 million loan from Kenya Sugar Board to procure turbine alternator. This is expected to turn the fortunes of the company for the benefit of all stakeholders.

Financial Results

The Company recorded a pre-tax loss of KShs. 938.16 million in the year. This was attributed to the seven months factory shut down during the rehabilitation process. The significant increase in the loss was also attributed to low throughput and adverse sugar conversion ratio.

Future Prospects

The Company's 5 year strategic plan (2012/13– 2016/2017) major objective is to attain optimum utilization of factory capacity at 3000 TCD and 260 tonnes of sugar per day by 2014/2015. The company also targets to avail 580,000 tonnes of cane in 2012/2013 and increase progressively to 840,000 tonnes of cane in 2016/2017 by the end of the five year period. The Cane yield is also projected to increase from 51TCH to 63. This will guarantee adequate cane supply to factory. The major factory rehabilitation carried out in the year has significantly improved factory performance. This is expected to be sustained in the next financial year. The installation and commissioning of Turbine Alternator will reduce the cost of power significantly and turn around the fortunes of the company for the benefits of the key stakeholders.

REPORT OF THE CHAIRMAN (CONTINUED)

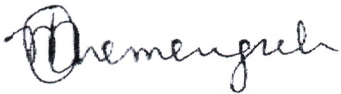
The COMESA safeguard measures are expected to end by February 2014. Government agencies have indicated that they will request for an extension. However, the Company's improved performance should enable it survive the competition in its market place. Prudent financial management that include deliberate cost management initiatives will continue to be implemented to return the company to profitability. More land in the catchment area is being put under cane to meet the factory expansion requirements. The cane development programme will continue into the next year where a further 3,100 hectares are targeted.

Privatization

Due diligence report on privatization of state owned sugar mills has been presented to Privatization Commission, the Company is optimistic that the process will be completed within the next 12 months.

Appreciation

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



MRS. MARGARET K. CHEMENGICH
CHAIRPERSON

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Chemelil Sugar Company Limited set out on pages 7 to 32, which comprise the statement of financial position as at 30 June, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by PKF, auditors appointed under the provisions of Section 39 of the Public Audit Act, 2003. The audit has been carried out in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Board of Director's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

1. Going Concern

The statement of comprehensive income for the year ended 30 June 2013 reflect a loss of Kshs.938,168,501 (2011/2012:Kshs.799,471,271) resulting in accumulated losses of Kshs.2,614,542,643. In addition, the current liabilities balance of Kshs.1,944,875,544 exceeded the current assets figure of Kshs.681,654,135 resulting in a negative working capital of Kshs.1,263,221,409 as at 30 June 2013. The company is therefore technically insolvent and the financial statements have been prepared on a going concern basis on the assumption that it will continue to receive financial support from the Government, creditors and bankers.

2. Export Sugar

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

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

3. Under pricing of sugar sales

As reported in the previous year, information available indicated that on diverse dates between February 2009 and March 2010, the Company sold 100,000 units of 50kg bags of sugar to a local company at a price of Kshs.220,000,000 while the ruling market price stood at Kshs.346,921,600. The Company thus incurred a loss in revenue amounting to Kshs.126,921,600. No plausible reason has however been provided for this clearly unsatisfactory state of affairs, and while the issue has been taken to court, the outcome of the case had not been determined as at the time of this report.

4. Long-term service dues and gratuity

As reported in the previous year, included in the other accrued liabilities is Kshs.302,529,099 relating to provision for long term service dues and gratuity. The company did not undertake an actuarial valuation of these provisions as per the requirements of International Accounting Standards (IAS) 19 – Employee Benefits. It is therefore not practicable to quantify the financial effects of the misstatements.

5. Statutory liabilities

The company has not been paying statutory liabilities due to the Keya Revenue Authority and the Kenya Sugar Board on the due dates. The management has included Kshs.835,497,501 for these liabilities in the trade and other payables balance disclosed under note 26 of the financial statements. However, the accuracy, completeness, existence and valuation of this balance could not be verified in the absence of a detailed analysis of the amount. Interest and penalties on the outstanding balance have not been quantified by the management. The Company indicated that a payment plan has been agreed with the regulatory bodies, however the plan was not availed for audit verification.

Qualified Opinion

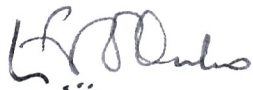
In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap. 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REPORTING REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and

- iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

26 May 2014

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2013 Shs	2012 Shs
Revenue	2	561,741,019	1,511,574,385
Cost of sales	3	<u>(1,201,561,520)</u>	<u>(1,850,127,023)</u>
Gross (loss)		(639,820,501)	(338,552,638)
Fair value (loss) in biological assets	4	(3,111,897)	(11,828,061)
Other operating income	5	60,511,045	35,599,619
Administrative expenses	6	(256,365,755)	(374,010,629)
Other charges and expenses	7	<u>(1,838,137)</u>	<u>(5,413,560)</u>
Operating (loss)	8	(840,625,245)	(694,205,269)
Finance costs	10	(98,966,658)	(86,717,964)
Finance income	11	<u>1,423,402</u>	<u>3,802,773</u>
(Loss) before tax		(938,168,501)	(777,120,460)
Tax	12	<u>-</u>	<u>(22,350,811)</u>
(Loss) for the year		<u>(938,168,501)</u>	<u>(799,471,271)</u>
Other comprehensive income:			
Revaluation surplus on property, plant and equipment		2,092,958,061	-
Deferred tax on revaluation surplus of property, plant and equipment		<u>-</u>	<u>-</u>
		<u>1,154,789,560</u>	<u>(799,471,271)</u>
(Loss) per share	13	<u>(88.68)</u>	<u>(75.57)</u>

The notes on pages 11 to 32 form an integral part of the financial statements.

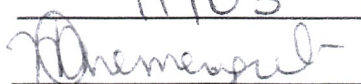
Report of the independent auditor - pages 5 and 6

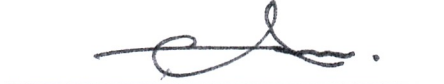
Chemelil Sugar Company Limited
Annual report and financial statements
For the year ended 30 June 2013

STATEMENT OF FINANCIAL POSITION

		As at 30 June	
	Notes	2013 Shs	2012 Shs
CAPITAL EMPLOYED			
Share capital	14	211,591,620	211,591,620
Revaluation reserve	15	3,140,738,185	1,067,106,575
Retained earnings		<u>(2,614,542,643)</u>	<u>(1,695,700,593)</u>
Shareholders' funds		<u>737,787,162</u>	<u>(417,002,398)</u>
Non-current liabilities			
Borrowings	16	2,197,824,446	1,510,768,878
Other accrued liabilities	18	334,212,016	314,189,401
Government grant	19	<u>24,415,788</u>	<u>35,778,104</u>
		<u>2,556,452,250</u>	<u>1,860,736,383</u>
		<u>3,294,239,412</u>	<u>1,443,733,985</u>
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	20	4,545,458,348	2,470,964,388
Biological assets	21	<u>12,002,473</u>	<u>84,274,274</u>
		<u>4,557,460,821</u>	<u>2,555,238,662</u>
Current assets			
Biological assets	21	207,127,981	137,968,077
Loan to outgrowers	22	11,379,441	13,708,505
Trade and other receivables	23	84,959,365	116,946,680
Inventories	24	334,436,299	369,054,679
Cash and cash equivalents	25	27,958,891	18,052,764
Tax recoverable		<u>15,792,158</u>	<u>15,696,878</u>
		<u>681,654,135</u>	<u>671,427,583</u>
Current liabilities			
Trade and other payables	26	1,861,071,423	1,551,124,178
Directors' current account	27	-	4,100,000
Borrowings	16	62,742,018	206,645,979
Dividends payable		9,699,787	9,699,787
Government grant	19	<u>11,362,316</u>	<u>11,362,316</u>
		<u>1,944,875,544</u>	<u>1,782,932,260</u>
Net current (liabilities)		<u>(1,263,221,409)</u>	<u>(1,111,504,677)</u>
		<u>3,294,239,412</u>	<u>1,443,733,985</u>

The financial statements on pages 7 to 32 were approved and authorised for issue by the Board of Directors on 11/03/2014 and were signed on its behalf by:


CHAIR PERSON


MANAGING DIRECTOR

The notes on pages 11 to 32 form an integral part of the financial statements.

Report of the independent auditor - pages 5 and 6

STATEMENT OF CHANGES IN EQUITY

		Share capital Shs	Revaluation reserve Shs	Retained earnings Shs	Total Shs
Year ended 30 June 2012	Notes				
At start of year		211,591,620	1,126,866,511	(955,989,258)	382,468,873
Realised on disposal			(9,030,300)	9,030,300	-
Transfer of excess depreciation	15	-	(50,729,636)	50,729,636	-
Total comprehensive (loss)		-	-	(799,471,271)	(799,471,271)
At end of year		<u>211,591,620</u>	<u>1,067,106,575</u>	<u>(1,695,700,593)</u>	<u>(417,002,398)</u>
Year ended 30 June 2013					
At start of year		211,591,620	1,067,106,575	(1,695,700,593)	(417,002,398)
On revaluation			2,092,958,061		2,092,958,061
Transfer of excess depreciation	15	-	(19,326,451)	19,326,451	-
Total comprehensive (loss)		-	-	(938,168,501)	(938,168,501)
At end of year		<u>211,591,620</u>	<u>3,140,738,185</u>	<u>(2,614,542,643)</u>	<u>737,787,162</u>

The notes on pages 11 to 32 form an integral part of the financial statements.

Report of the independent auditor - pages 5 and 6

Chemelil Sugar Company Limited
Annual report and financial statements
For the year ended 30 June 2013

STATEMENT OF CASH FLOWS

	Notes	2013 Shs	2012 Shs
Operating activities			
Cash (used in) operations	28	(303,557,870)	(137,417,899)
Interest paid		(98,966,658)	(86,717,964)
Interest received		1,423,402	3,802,773
Tax paid		(95,280)	(208,613)
Net cash (used in) operating activities		<u>(401,196,406)</u>	<u>(220,541,703)</u>
Investing activities			
Purchase of property, plant and equipment	20	(113,404,216)	(21,378,500)
Proceeds on disposal of property, plant and equipment		<u>721,200</u>	<u>101,315</u>
Net cash (used in) investing activities		<u>(112,683,016)</u>	<u>(21,277,185)</u>
Financing activities			
Proceeds from KSB borrowings		535,151,122	36,350,502
Repayment of KSB borrowings		(15,154,760)	(3,171,350)
Net movement in bank borrowings		143,605,815	-
Interest charged		69,053,391	54,489,238
Directors account		<u>(4,100,000)</u>	<u>1,500,000</u>
Net cash from financing activities		<u>728,555,568</u>	<u>89,168,390</u>
Increase/(decrease) in cash and cash equivalents		<u>214,676,146</u>	<u>(152,650,498)</u>
Movement in cash and cash equivalents			
At start of year		(203,859,274)	(51,208,776)
Increase/(decrease)		<u>214,676,146</u>	<u>(152,650,498)</u>
At end of year	25	<u>10,816,872</u>	<u>(203,859,274)</u>

The notes on pages 11 to 32 form an integral part of the financial statements.

Report of the independent auditor - pages 5 and 6

NOTES

SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

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

(i) New and amended standards adopted by the company

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

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2012 and not adopted in advance of the effective date.

Impact of Standards and Interpretations:

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

b) Critical accounting estimates and judgements

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

(i) Key sources of estimation uncertainty

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

- **Biological assets** - In arriving at the fair valuation of biological assets, the management estimate the success rate of planting at 55 tonnes of cane per hectare. Should the success rate fall by 10% from the estimate assumed by the management, the fair valuation of biological assets would decrease by Shs. 26,491,833. The significant assumptions used are set out in Note 21.

NOTES(CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Critical accounting estimates and judgements (continued)

- whether property, plant and equipment and trade receivables are impaired.
- whether inventories have become obsolete.

c) Revenue recognition

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

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

- i) Sales are recognised upon delivery of products and customer acceptance.
- ii) Interest income is accounted for in the period in which it is earned.
- iii) Rental income is accounted for in the period in which it is earned.

d) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings (functional currency), at rates ruling at the transaction dates. Assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

e) Property, plant and equipment

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

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

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

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the 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.

NOTES(CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property, plant and equipment (continued)

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

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

	<u>Rate %</u>
i) Buildings and roads	
Buildings	2.50%
Roads	12.25%
ii) Plant, equipment and machinery	
Factory plant and machinery	5.00%
Irrigation project	6.67%
Agricultural implements	10.00%
Wheeled tractors and cane loaders	12.25%
Crawling tractors	10.00%
Trailers and caterpillar implements	8.33%
iii) Motor vehicles and other equipment	
Lorries and Landrovers	16.67%
Other Vehicles	20.00%
Office machines, fittings and equipment	20.00%
Household equipment	20.00%
Office furniture	10.00%
Computer Hardware	33.33%

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

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

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating (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 recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

NOTES(CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial instruments

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

Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the 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 recognised in the profit or loss.

Purchases and sales of financial assets are recognised 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 the impairment loss for assets carried at amortised cost is calculated at the difference between the assets carrying amount and the present values of expected future cash flows, 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 measured at amortised cost: These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

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

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

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

Financial liabilities are derecognised 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 realise the asset and settle the liability simultaneously.

NOTES(CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Inventories

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

i) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, 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 equity.

k) Dividends

Dividends are recognised 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 recognised in profit or loss, except to the extent that it relates to items recognised in equity. In this case, the tax is also recognised in equity.

Current tax

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

Deferred tax

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

m) Employee entitlements

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

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

NOTES(CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Retirement benefit obligations

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

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

o) Biological assets

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

p) Government grants

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

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

q) Comparatives

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

NOTES

1. Basis of preparation of financial statements

At the reporting date current liabilities exceeded current assets by Shs. 1,263,221,409 (2012: Shs.1,111,504,677). There was a deficiency in shareholders fund of Shs.417,002,398 on 30 June 2012. The company has accumulated losses amounting to Shs.2,614,542,643 (2012: 1,695,700,593). The company meets its day to day working capital requirements through borrowings from its bankers and Kenya Sugar Board.

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

2. Revenue

	2013 Shs	2012 Shs
Gross sales	672,732,234	1,812,333,074
Less: Value Added Tax	(89,330,070)	(242,466,162)
Sugar Development Levy	(21,491,710)	(58,292,527)
Discounts	(169,435)	-
Net sales	561,741,019	1,511,574,385
Gross sales comprising of the following:		
Revenue from sale of milled local sugar	647,919,865	1,757,930,054
Revenue from sale of molasses	24,812,369	54,403,020
Total revenue	672,732,234	1,812,333,074

3. Cost of sales

Cost of cane	516,315,253	1,244,710,837
Factory costs	711,726,005	620,340,901
Decrease in closing inventory of sugar	(26,479,738)	- 14,924,725
Total cost of sales	1,201,561,520	1,850,127,023

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

Sugar plantation	3,006,897	11,988,061
Livestock	105,000	(160,000)
	3,111,897	11,828,061

5. Other operating income

Miscellaneous income	37,886,719	11,938,850
Gain on disposal of property, plant and equipment	465,270	-
Physical inventory adjustment	-	-
Government grant	11,362,316	11,362,316
Bad debts recovered	-	1,090,690
Rental income	10,796,740	11,207,763
Total other operating income	60,511,045	35,599,619

NOTES (CONTINUED)

	2013 Shs	2012 Shs
6. Administrative expenses		
Finance and administration department	97,068,124	140,199,914
Loss on disposal of property, plant and equipment	-	13,146,432
Human resource department	159,297,631	220,664,283
Total administrative expenses	<u>256,365,755</u>	<u>374,010,629</u>
7. Other charges and expenses		
Provision for bad and doubtful debts		
- Loans to outgrowers (societies)	340,075	-
- Other receivables	1,498,062	5,413,560
Total other charges and expenses	<u>1,838,137</u>	<u>5,413,560</u>
8. Operating (loss)		
The following items have been charged/(credited) in arriving at operating (loss):		
Depreciation on property, plant and equipment (Note 19)	131,612,386	133,402,591
(Gain)/loss on disposal of property, plant and equipment	(465,270)	13,146,432
Aggregate loss due to changes in fair value on biological assets (Note 4)		
Auditors' remuneration	3,111,897	11,828,061
Directors' emoluments: salaries	1,750,000	1,500,000
Directors' emoluments: fees	10,259,400	11,773,159
Interest expense	-	1,500,000
Other receivables - impairment	98,966,658	86,717,964
Loan outgrowers - impairment	1,498,062	5,413,560
Repairs and maintenance	340,075	-
Staff costs (Note 9)	385,008,744	243,894,895
	<u>456,716,433</u>	<u>451,986,340</u>
9. Staff costs		
Salaries and wages		
Leave pay and allowances	440,334,673	434,045,035
Pension fund contribution:	1,953,134	3,212,912
- Defined contribution scheme		
- National Social Security Fund	12,320,155	12,529,993
	<u>2,108,471</u>	<u>2,198,400</u>
	<u>456,716,433</u>	<u>451,986,340</u>
10. Finance costs		
Bank overdraft interest		
Loan interest	8,538,644	31,919,710
Mobilization charges	90,428,014	54,489,238
	-	309,016
Total finance costs	<u>98,966,658</u>	<u>86,717,964</u>
11. Finance income		
Interest income		
	<u>1,423,402</u>	<u>3,802,773</u>

This represents interest income from loans advanced by the company to farmers.

NOTES (CONTINUED)

12. Tax	2013 Shs	2012 Shs
Current tax	-	-
Deferred tax charge (Note 16)	-	22,350,811
	<u>-</u>	<u>22,350,811</u>

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

(Loss) before tax	(938,168,501)	(777,120,460)
Tax calculated at a tax rate of 30% (2012: 30%)	(281,450,550)	(233,136,138)
Tax effect of:		
- Deferred tax not recognised	(165,012,360)	(220,624,319)
- expenses not deductible for tax purposes	445,800,296	476,111,268
Tax charge	<u>-</u>	<u>22,350,811</u>

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	(938,168,501)	(799,471,271)
Weighted average number of shares	10,579,581	10,579,581
(Loss) per share	<u>(88.68)</u>	<u>(75.57)</u>

14. Share capital

Authorised, issued and fully paid

10,579,581 (2012: 10,579,581) ordinary shares of Shs. 20 each	211,591,620	211,591,620
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15. Revaluation reserve

Property, plant and equipment	3,269,329,795	1,067,106,575
Property, plant and equipment		
- Freehold land	1,400,000,000	447,061,152
- land and buildings	1,079,671,616	404,701,249
- plant equipment and machinery	784,748,017	215,344,174
	<u>3,264,419,632</u>	<u>1,067,106,575</u>

The movements in reserves were as follows:

Freehold land

At start of year	447,061,152	447,061,152
Increase in fair value	952,938,848	-
At end of year	<u>1,400,000,000</u>	<u>447,061,152</u>

NOTES (CONTINUED)

	2013 Shs
15 Revaluation reserve (continued)	
Buildings	
At start of year	404,701,249
Movement in revaluation	681,760,754
Transfer of excess depreciation	(9,700,554)
Deferred tax on excess depreciation transfer	2,910,166
	<u>1,079,671,616</u>
Plant equipment and machinery	
At start of year	215,344,174
Movement in revaluation	581,939,906
Transfer of excess depreciation	(17,908,662)
Deferred tax on excess depreciation transfer	5,372,599
	<u>784,748,017</u>

Revaluation reserves are not distributable.

16. Borrowings

The borrowings are made up as follows:

	2013 Shs	2012 Shs
Non-current		
Bank loan	98,005,815	-
Kenya Sugar Board loan	<u>2,099,818,631</u>	<u>1,510,768,878</u>
	<u>2,197,824,446</u>	<u>1,510,768,878</u>
Current		
Bank overdraft (Note 25)	17,142,018	206,645,979
Bank loan	<u>45,600,000</u>	<u>-</u>
	<u>62,742,018</u>	<u>206,645,979</u>
Total borrowings	<u><u>2,260,566,464</u></u>	<u><u>1,717,414,857</u></u>

NOTES (CONTINUED)

16. Borrowings (continued)

Borrowings are secured as follows:

- a) Bank overdrafts:
 - A debenture for Shs. 145 million over the assets of the company ranking pari passu with Kenya Sugar Board;
 - Legal charge over property L.R. Nos. 11840, 1611/4 and 1612/4 in the name of the company;
 - Letters of awareness from parent Ministry of Agriculture for sum of Shs. 145 million;
- b) Kenya Sugar Board loan
 - Debentures over the company's assets.

Weighted average effective interest rates at the year end were:	2013 %	2012 %
Kenya Sugar Board Loan	3 - 6	3 - 6
Bank overdraft	14.5	19.87

In the opinion of the directors, the carrying amounts of short-term borrowings approximate to their fair value. Fair values are based on discounted cash flows 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 the 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.

Maturity of non-current borrowings	2013 Shs	2012 Shs
Between 1 and 2 years	2,150,377,670	1,510,768,878
Over 2 years	47,446,776	-
	<u>2,197,824,446</u>	<u>1,510,768,878</u>

During the year, the company defaulted on loan agreements relating to borrowings from Kenya Sugar Board by not honouring the repayment of principal and interest amounting to Shs. 575,851,511.

Borrowings from this institution amounted to Shs. 2,099,818,632 (2012: Shs. 1,510,768,878) as at the year end. Interest payable of Shs. 323,383,475 (2012: Shs. 255,743,137) remained unpaid as at 30 June 2013. The management expects to meet all contractual obligations in the future.

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

	2013 Shs	2012 Shs
At start of year	1,510,768,878	1,423,100,488
Proceeds during the year	535,151,122	36,350,502
Interest charged	69,053,391	54,489,238
Repayments during the year	<u>(15,154,760)</u>	<u>(3,171,350)</u>
At end of year	<u>2,099,818,631</u>	<u>1,510,768,878</u>

There were no undrawn facilities as at the reporting date.

NOTES (CONTINUED)

17. Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2012: 30%). The movement on the deferred tax account is as follows:

	2013 Shs	2012 Shs
At start of year	-	22,350,812
Statement of comprehensive income (credit) (Note 11)	-	(22,350,812)
At end of year	-	-

Deferred tax assets and liabilities and the 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 of year Shs
Deferred tax liabilities			
Property, plant and equipment			
- historical cost	(238,318,073)	(165,731,898)	(72,586,175)
- revaluation surplus	(289,166,169)	509,870,816	(799,036,985)
- biological assets	(66,050,757)	(311,621)	(65,739,136)
	(593,534,999)	343,827,297	(937,362,296)
Deferred tax assets			
Other temporary differences	94,256,832	(6,006,773)	100,263,605
Tax loss carried forward	499,278,167	(337,157,911)	836,436,078
	593,534,999	(343,164,684)	936,699,683
Net deferred tax liability	-	-	-

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

No provision has been made for the above deferred tax asset, which includes an asset arising from tax losses amounting to KShs 3,338,161,459 (2012 KShs 2,399,674,950) 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 year from the date which they were incurred and for any tax losses incurred before 1 January 2010 are deemed to have been incurred on that date.

NOTES (CONTINUED)

18. Other accrued liabilities

At 1 July 2011	Provision for gratuity Shs	Provision for long-term service dues Shs	Provision for outstanding leave days Shs	Total Shs
At start of year	8,809,251	242,633,376	46,007,275	297,449,902
Statement of comprehensive income charge	4,075,062	33,290,746	31,442,520	68,808,328
Paid/utilised during the year	<u>(400,000)</u>	<u>(10,815,531)</u>	<u>(40,853,298)</u>	<u>(52,068,829)</u>
At end of year	<u>12,484,313</u>	<u>265,108,591</u>	<u>36,596,497</u>	<u>314,189,401</u>
At 1 July 2012				
At start of year	12,484,313	265,108,591	36,596,497	314,189,401
Statement of comprehensive income charge	993,030	23,943,165	-	24,936,195
Paid/utilised during the year	<u>-</u>	<u>-</u>	<u>(4,913,580)</u>	<u>(4,913,580)</u>
At end of year	<u>13,477,343</u>	<u>289,051,756</u>	<u>31,682,917</u>	<u>334,212,016</u>

19. Government grant

	2013 Shs	2012 Shs
At start of year	47,140,420	58,502,736
Amount recognised	<u>(11,362,316)</u>	<u>(11,362,316)</u>
At end of year	<u>35,778,104</u>	<u>47,140,420</u>
Current	11,362,316	11,362,316
Non- current	<u>24,415,788</u>	<u>35,778,104</u>
	<u>35,778,104</u>	<u>47,140,420</u>

The grant relates to advance of Kshs. 113.2 million by the Government of Kenya to the company which was given for the purposes of procurement of tractors. There are no conditions attached to the grant. The grant is recognised in profit or loss over a period of 10 years.

NOTES (CONTINUED)

20. Property, plant and equipment

Year ended 30 June 2013	Freehold land Shs	Buildings and roads Shs	Plant, equipment and machinery Shs	Motor vehicles and other equipment Shs	Capital work in progress Shs	Total Shs
At start of year	450,000,000	946,639,443	1,638,838,027	132,871,067	10,738,477	3,179,087,014
Additions	-	-	112,752,316	651,900	-	113,404,216
On impairment	-	-	(1,908,961)	(5,080,000)	-	(6,988,961)
Transfer upon completion	-	486,891	10,251,586	-	(10,738,477)	-
On revaluation	950,000,000	608,513,666	(168,559,743)	(17,332,251)	-	1,372,621,672
Disposals	-	-	(620,000)	-	-	(620,000)
Comprising	1,400,000,000	1,555,640,000	1,590,753,225	111,110,716	-	4,657,503,941
Cost	-	3,551,424	451,775,968	101,527,967	-	556,855,359
Valuation	1,400,000,000	1,552,088,576	1,138,977,257	9,582,749	-	4,100,648,582
Depreciation	1,400,000,000	1,555,640,000	1,590,753,225	111,110,716	-	4,657,503,941
At start of year	-	127,218,692	456,554,845	124,349,089	-	708,122,626
On disposal	-	-	(364,070)	-	-	(364,070)
On impairment	-	-	(1,908,961)	(5,080,000)	-	(6,988,961)
Reversal of accumulated depreciation on revaluation	-	(144,785,178)	(527,565,440)	(47,985,770)	-	(720,336,388)
Charge for the year	-	27,289,236	98,295,769	6,027,381	-	131,612,386
At end of year	-	9,722,750	25,012,143	77,310,700	-	112,045,593
Net book value	1,400,000,000	1,545,917,250	1,565,741,082	33,800,016	-	4,545,458,348

Property, plant and equipment were professionally valued in 2013 by Tysons Limited, independent valuers. Valuations were made on the basis of value open market for freehold land and buildings and on replacement cost for plant, equipment and machinery. The book values of the assets were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to the revaluation reserve in shareholders' equity.

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

NOTES (CONTINUED)

20. Property, plant and equipment (continued)

Year ended 30 June 2012	Freehold land Shs	Buildings and roads Shs	Plant, equipment and machinery Shs	Motor vehicles and other equipment Shs	Capital work in progress Shs	Total Shs
Cost or valuation						
At start of year	450,000,000	961,849,443	1,622,998,191	132,102,522	6,146,258	3,173,096,414
Additions	-	-	15,839,836	946,445	4,592,219	21,378,500
Disposals	-	(15,210,000)	-	(177,900)	-	(15,387,900)
	450,000,000	946,639,443	1,638,838,027	132,871,067	10,738,477	3,179,087,014
Comprising						
Cost	-	3,064,533	331,301,027	105,956,067	10,738,477	451,060,104
Valuation	450,000,000	943,574,910	1,307,537,000	26,915,000	-	2,728,026,910
	450,000,000	946,639,443	1,638,838,027	132,871,067	10,738,477	3,179,087,014
Depreciation						
At start of year	-	105,329,882	360,764,961	110,704,342	-	576,799,185
On disposal	-	(1,901,250)	-	(177,900)	-	(2,079,150)
Charge for the year	-	23,790,060	95,789,884	13,822,647	-	133,402,591
At end of year	-	127,218,692	456,554,845	124,349,089	-	708,122,626
Net book value	450,000,000	819,420,751	1,182,283,182	8,521,978	10,738,477	2,470,964,388

NOTES (CONTINUED)

21. Biological assets	2013 Shs	2012 Shs
a) Bearer assets:		
Plantations - Sugar cane	218,505,454	221,512,351
Consumable assets		
Livestock	<u>625,000</u>	<u>730,000</u>
Total biological assets	<u><u>219,130,454</u></u>	<u><u>222,242,351</u></u>
b) Details of biological assets:		
i) Milk cattle		
Held for meat and milk purposes		
Quantities at year-end in number of animals		
Mature	9	26
Immature	<u>11</u>	<u>2</u>
Total beef and milk cattle	<u><u>20</u></u>	<u><u>28</u></u>
ii) Sugarcane		
Held for sugarcane harvesting		
Quantities at year-end in number of hectares under sugar cane plantation:		
Plant	240	372
Ratoon	<u>1,306</u>	<u>1,293</u>
	<u><u>1,547</u></u>	<u><u>1,665</u></u>
c) Determining fair value of agricultural produce:		
The valuation of standing cane is based on the estimated market price at the reporting date less point of sales costs.		
d) Significant assumptions made in determining the fair values of biological assets:		
i) The market price of cane will not significantly change from Shs. 3,500 per tonne (2012: Shs. 3,500)		
ii) Growing cane has a productive life of eighteen months. Cane at age of six months and above is assumed to mature after a period of twelve months after the reporting date.		
iii) The fair value of cane per tonne is spread over the crop life from age of one month based on the proportion of cane development cost.		
iv) Climatic conditions will remain the same.		

NOTES (CONTINUED)

21. Biological assets (continued)

	2013 Shs	2012 Shs
e) Reconciliation of carrying amount of biological assets:		
i) Sugar cane plantations		
As start of year	221,512,351	233,500,412
Aggregate (loss) due to changes in fair value (Note 4)	<u>(3,006,897)</u>	<u>(11,988,061)</u>
At end of year	<u>218,505,454</u>	<u>221,512,351</u>
Apportionment		
Current portion	207,127,981	137,968,077
Non-current portion	<u>11,377,473</u>	<u>83,544,274</u>
	<u>218,505,454</u>	<u>221,512,351</u>
ii) Livestock		
As start of year	730,000	570,000
Aggregate (loss)/gain due to changes in fair value (Note 4)	<u>(105,000)</u>	<u>160,000</u>
At end of year	<u>625,000</u>	<u>730,000</u>
Total value of biological assets		
Current portion	207,127,981	137,968,077
Non-current portion	<u>12,002,473</u>	<u>84,274,274</u>
	<u>219,130,454</u>	<u>222,242,351</u>

22. Loans to outgrowers

Co-operative societies	368,968,312	369,825,047
Large and medium scale farmers	49,595,718	50,666,657
Transport and equipment loans	<u>843,365</u>	<u>904,680</u>
	419,407,395	421,396,384
Less: Impairment		
Co-operative societies	(365,958,108)	(365,618,033)
Large and medium scale farmers	(41,236,110)	(41,236,110)
Transport and equipment loans	<u>(833,736)</u>	<u>(833,736)</u>
	<u>(408,027,954)</u>	<u>(407,687,879)</u>
	<u>11,379,441</u>	<u>13,708,505</u>

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

NOTES (CONTINUED)

22. Loans to outgrowers (continued)

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

23. Trade and other receivables

	2013 Shs	2012 Shs
Trade receivables	27,758,695	57,336,706
Less: provision for impairment	<u>(22,595,936)</u>	<u>(22,738,043)</u>
Net trade receivables	<u>5,162,759</u>	<u>34,598,663</u>
Other receivables	75,093,506	107,246,621
Less: provision for impairment	<u>(43,699,506)</u>	<u>(42,616,026)</u>
Net other receivables	<u>31,394,000</u>	<u>64,630,595</u>
Deposits and prepayments	<u>48,402,606</u>	<u>17,717,422</u>
	<u><u>84,959,365</u></u>	<u><u>116,946,680</u></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 receivable whose recovery is in doubt.

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

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

24. Inventories

	2013 Shs	2012 Shs
Milled sugar	28,390,469	8,209,757
Factory and field stores	353,252,219	407,394,701
Milled sugar-in-process	23,841,697	30,464,084
Unmilled cane	2,100,000	700,000
Filling station	833,188	911,922
Molasses	1,146,315	378,458
Molasses in process	4,556,226	-
Stationery	1,752,241	1,503,258
Medicines	1,007,662	1,936,217
Goods-In-Transit	<u>419,129</u>	<u>419,129</u>
	417,299,146	451,917,526
Less: Impairment for obsolete and slow moving inventories	<u>(82,862,847)</u>	<u>(82,862,847)</u>
	<u><u>334,436,299</u></u>	<u><u>369,054,679</u></u>

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NOTES (CONTINUED)

25. Cash and cash equivalents

	2013 Shs	2012 Shs
Cash at bank and in hand	27,958,891	2,786,705
Short term bank deposits	-	15,266,059
	<u>27,958,891</u>	<u>18,052,764</u>

The weighted average effective interest rate on short-term bank deposits at year-end was 8% (2012: 6.8%).

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

	2013 Shs	2012 Shs
Cash at bank and in hand	27,958,891	18,052,764
Short term bank deposits	-	(15,266,059)
Bank overdraft (Note 15)	(17,142,018)	(206,645,979)
	<u>10,816,873</u>	<u>(203,859,274)</u>

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

26. Trade and other payables

	2013 Shs	2012 Shs
Trade payables	354,185,855	303,066,538
Cane payables	369,237,711	210,843,006
Value added tax	433,486,134	522,260,577
Kenya Sugar Board levy	279,032,104	262,331,113
Payroll liabilities	330,927,833	98,705,528
Prepaid sugar sales	49,846,339	105,970,978
Other payables and accruals	44,355,447	47,946,438
	<u>1,861,071,423</u>	<u>1,551,124,178</u>

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

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

Year ended 30 June 2013

	0 to 3 months Shs	Over 3 months Shs	Total Shs
Trade payables	141,674,342	212,511,513	354,185,855
Cane payables	147,695,084	221,542,627	369,237,711
Value added tax	-	433,486,134	433,486,134
Kenya Sugar Board levy	-	279,032,104	279,032,104
Payroll liabilities	66,185,567	264,742,266	330,927,833
Prepaid sugar sales	19,938,536	29,907,803	49,846,339
Other payables and accruals	17,742,179	26,613,268	44,355,447
	<u>393,235,707</u>	<u>1,467,835,716</u>	<u>1,861,071,423</u>

NOTES (CONTINUED)

26. Trade and other payables (continued)

Year ended 30 June 2012

	0 to 3 months Shs	Over 3 months Shs	Total Shs
Trade payables	121,226,615	181,839,923	303,066,538
Cane payables	84,337,202	126,505,804	210,843,006
Value added tax	208,904,231	313,356,346	522,260,577
Kenya Sugar Board levy	104,932,445	157,398,668	262,331,113
Payroll liabilities	39,482,211	59,223,317	98,705,528
Prepaid sugar sales	42,388,391	63,582,587	105,970,978
Other payables and accruals	19,178,575	28,767,863	47,946,438
	<u>620,449,671</u>	<u>930,674,507</u>	<u>1,551,124,178</u>

27. Related party transactions and balances

i) **Amount due to directors**

	2013 Shs	2012 Shs
At start of year		
Reversal through directors remuneration	4,100,000 (4,100,000)	4,100,000 -
At end of year	<u>-</u>	<u>4,100,000</u>

The amount due to directors are interest free and have no specific dates of repayment.

28. Cash (used in) operations

	2013 Shs	2012 Shs
Reconciliation of loss before tax to cash (used in) operations		
(Loss) before tax	(938,168,501)	(777,120,460)
Adjustments for:		
Depreciation on property, plant and equipment (Note 19)	131,612,386	133,402,591
(Gain)/loss on disposal of property, plant and equipment	(465,270)	13,207,435
Net fair value loss on biological assets (Note 10)	3,111,897	11,828,061
Interest (income)	(1,423,402)	(3,802,773)
Interest expense	98,966,658	86,717,964
Amortisation of Government grant	(11,362,316)	(11,362,316)
Increase provision for other accrued liabilities (Note 15)	20,022,615	16,739,499
Changes in working capital		
- Inventories	34,618,380	57,635,224
- Trade and other receivables	31,987,315	9,808,889
- Loan to outgrowers	2,329,064	(7,060,142)
- Restricted cash and cash equivalent	15,266,059	(861,166)
- Trade and other payables	309,947,245	333,449,295
Cash (used in) operations	<u>(303,557,870)</u>	<u>(137,417,899)</u>

NOTES (CONTINUED)

29. Contingent liabilities

The company has not been meeting its obligations of certain statutory payments on time. No provision has been made in these financial statements in respect of the interest and penalties as the company is still negotiating with the authorities on waivers on the interest and penalties and it is possible but not probable that the action will succeed.

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

30. Commitments

**2013
Shs**

**2012
Shs**

Capital commitments

Capital expenditure contracted for at the reporting date is as follows:

Factory and Agricultural plant and machinery	<u>33,708,839</u>	<u>37,745,750</u>
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31. Risk management objectives and policies

Financial risk management

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

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

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

a) Market risk

- Foreign exchange risk

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

- Interest rate risk

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

At 30 June 2013, if interest rates at that date had been 10 percentage higher with all other variables held constant, post-tax (loss) for the year would have been Shs. 6,563,733 (2012: Shs. 3,815,632) arising mainly as a result of higher interest expense on variable borrowings.

- Price risk

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

31. Risk management objectives and policies (continued)

Financial risk management (continued)

b) Credit risk

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

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

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

c) Liquidity risk

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

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

Notes 15 and 24 disclose the maturity analysis of borrowings and trade and other payables respectively.

32. Capital management

The company's objectives when managing capital are:

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

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

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

33. Country of incorporation

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

34. Presentation currency

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