

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

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DATE: 30 JUL 2018

DAY: TUESDAY

THE AUDITOR-GENERAL

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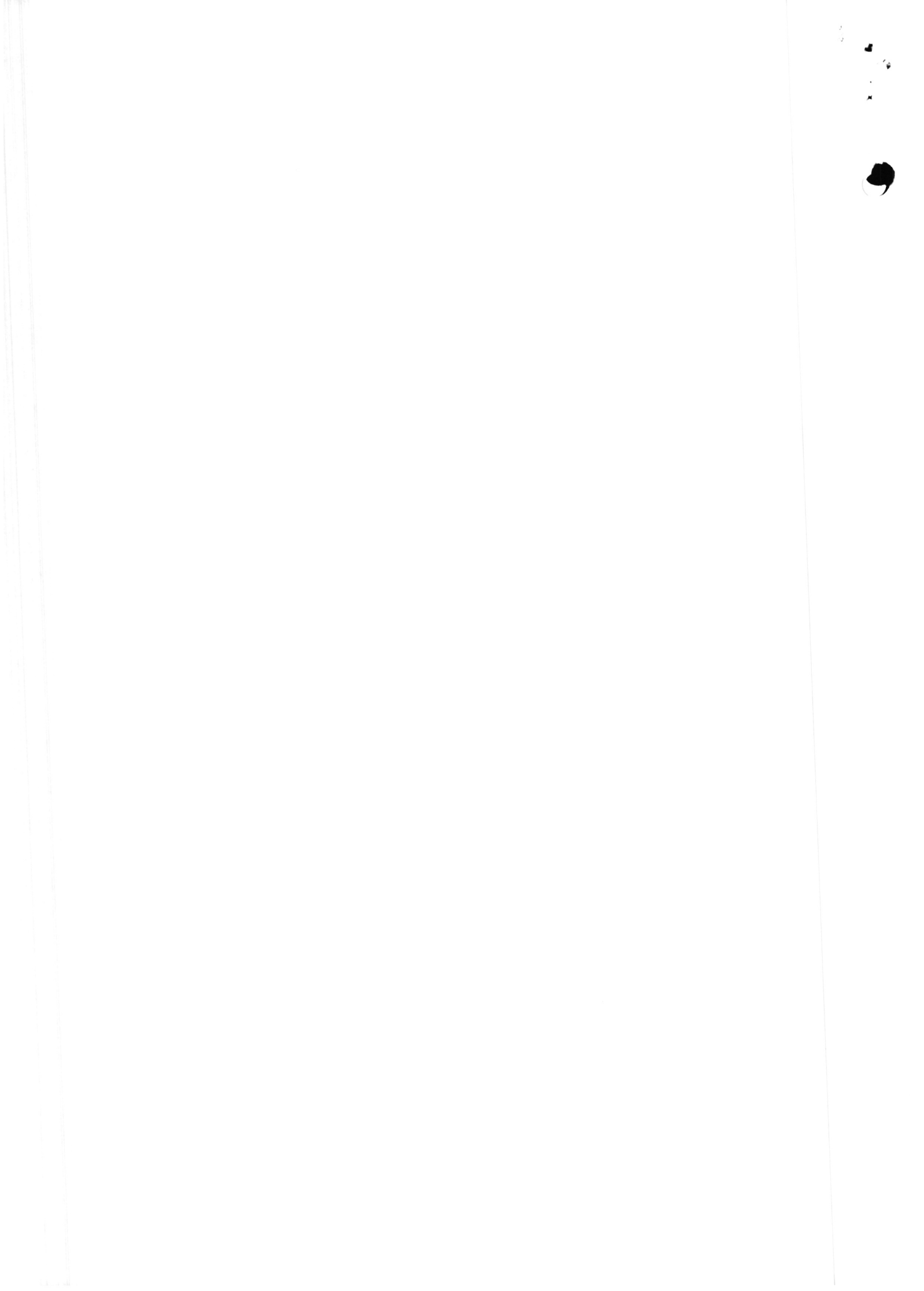
MAJORITY LEADER

ON

MARK AT
TABLE:

THE FINANCIAL STATEMENTS OF
CHEMELIL SUGAR COMPANY
LIMITED

FOR THE YEAR ENDED
30 JUNE 2018





CHEMELIL SUGAR COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

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

COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. Gabriel Nyangweso	- Ag.Managing Director
Mr. Benson Owiti	- Independent Director
Principal Secretary, Ministry of Agriculture	- Alternate, Ms. Mary Karanja
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
Eng. Ezra Odhiambo	- Independent Director
Ms. Marjorie Wasonga Nangulu	- Independent Director
Ms. Irene Onunga	- Independent Director
Mr. George Oballa	- Independent Director

CHIEF OFFICERS

Mr. Gabriel Nyangweso	- Ag.Managing Director
Mr. Emmanuel Obetch Ngala	- Head of Finance
Mr. Joel Kiplagat	- 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. Amos Kosgei	- Internal Audit Manager(Ag)

REGISTERED OFFICE

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

INDEPENDENT AUDITOR

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

On behalf of:

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

COMPANY SECRETARY

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

CORPORATE INFORMATION (Continued)

PRINCIPAL BANKERS

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





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




LEGAL ADVISORS

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





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





THE BOARD OF DIRECTORS


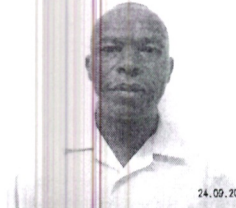
DIRECTOR'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
<p>1. Mr. Benson Odhiambo Owiti</p>  <p>Independent Director</p>	<p>Mr. Owiti aged is aged 45 years .He is a holder of Bachelor of Education (Science) from Kenyatta University and Diploma in Mass Communication (ICM) from East Africa School of Media studies. He has worked for Royal Media Services. He currently works for Universal Community Development Foundation-Migori as a programs Director.He is a consultant on media and governance.</p>
<p>2. Ms. Marjorie Wasonga Nangulu</p>  <p>Independent Director</p>	<p>Ms.Nangulu holds a Master's degree in Administration, Tourism-Punjabi University India, Advanced diploma in Computer Applications, Computer Center-Chandigarh India and Bachelor of Commerce-Punjabi University, India. She has worked for Citibank N.A as a client experience Head (Kenya and Uganda).</p>
<p>3. Ms. Irene Adhiambo Onunga</p>  <p>Independent Director</p>	<p>Ms. Onunga is aged 37 years. She holds a Diploma in Business Management from Kenya Institute of Management and Currently pursuing Bachelors of Business Management in Nazareen University.</p>
<p>4. Mr. George A. O. Oballa</p>  <p>Independent Director</p>	<p>Mr. Oballa, aged 48 years is a holder of a Bachelor of Commerce Degree in Marketing (1992) from University of Nairobi and Advanced Diploma in Marketing (2003) from the Institute of Finance Management. Currently, he is a Director, Lead Consultant at Seydou Resources Ltd and Regional Director for East Africa at Forefinance/Scopelnaight.</p>

<p>5.Eng. Ezra O. Odhiambo</p>	<p>Mr. Odhiambo, aged 63 years is a holder of Executive Masters of Business Administration (EMBA) BSc Electrical Eng. From JKUAT-2009,Post Graduate Diploma in Telecommunications Management Studies f Bailbrok College (England)-1988 and He has broad business management experience which ranges from strategic planning, business administration, maintenance management, engineering, project management among others. He was appointed to the Board on 31.05.2016.</p>
<p>6. Mr. Jacob Mananda 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>  <p>Alternate Director</p>	<p>Mr. Odhiambo represents the National Treasury as per the State Corporation Act.Alternate to Dr.Kamau Thugge,Principal Secretary ,The National Treasury.</p>
<p>8. Mr. Richard Aiyabei</p>  <p>Alternate Director (ADC)</p>	<p>Mr. Richard Aiyabei aged 51 years is a holder of MSc. Degree in Agronomy from University of Eldoret, 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 Oganisation (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. Mary Karanja</p>  <p>Alternate Director</p>	<p>Represents Ministry of Agriculture, Livestock, Fisheries and Irrigation. She served up to 10th October 2018.</p>
<p>10. Ms. Naomi Assumani Alternate Director Vivo Energy</p>	<p>Ms. Assumani represents Vivo Energy.</p>

THE MANAGEMENT TEAM

MANAGER'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
 <p>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 47 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 43 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. Mr. Joel Kiplagat Head of Agriculture (Ag)</p>	<p>Mr.Kiplagat is aged 59 years. He is a holder of Diploma in Agriculture from Egerton University and Certificate in Sugarcane Agronomy from RASTIC, Mauritius and a certificate in Rice cultivation from Ibaraki, Japan. He was appointed to the position of Head of Agriculture in May 2017 on acting capacity.</p>

 <p>5. Ms. Jacqueline Kotonya Quality Assurance Manager</p>	<p>Ms. Kotonya aged 44 years holds a BSc.Chemistry Degree from University of Nairobi. She has previously worked for Insteel limited as a Quality Assurance Coordinator and Unga limited as a Quality Controller. Her Memberships include Kenya Association of Manufactures (KAM), Kisumu Chapter, African Women in Science and Engineering (AWSE), Environmental Institute of Kenya(EIK). She was appointed to her current position in March 2011.</p>
 <p>6. Mr. Moffat Omondi Head of Human Resource (Ag)</p>	<p>Mr. Omondi is aged 51 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>7. Mr. Japheth Ojwang Supply Chain Manager (Ag)</p>	<p>Mr. Ojwang is aged 41 years. He holds a Bachelors of Business Management degree in Purchasing and Supplies from Moi University and Diploma in Business Administration from Kisumu Polytechnic. He is a member of Kenya Institute of Supplies Management (KISM) and Chartered Institute of Procurement and Supply (CIPS). He was appointed to this position in May 2017.</p>
 <p>8. Mr. Amos Kosgei Internal Audit Manager (Ag)</p>	<p>Mr. Amos Kosgei is aged 41. He holds a Bachelor of Commerce Degree from Catholic University of Eastern Africa and is a Certified Public Accountant (CPA (K)). He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has training on ISO 14001-2004 implementation , Public Procurement and Disposal Act and Information Systems Security. He is currently the secretary to the Integrity Committee of the Company. He was appointed the Internal Audit Manager in acting capacity in August 2015.</p>

 <p>Ms. Lindah J. Kiplagat Marketing Manager (Ag)</p>	<p>Ms. kiplagat is aged 40. 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>Mr. Samson Oyayo ICT Manager (Ag)</p>	<p>Mr. Oyayo is aged 57 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. He was appointed to the position of ICT manager in acting capacity in August 2017.</p>

CHAIRMANS REPORT

It is my pleasure to report the performance of Chemelil Sugar Company for the year ended 30 June 2018 as follows.

OVERVIEW

During the financial year under review, the Company faced a challenging operating environment. The major challenge was cane shortage biting the zone caused by poaching of cane in the zone by other millers as a result of lack of restrictions. As a result of cane shortage, unrestricted sugar imports were allowed causing a major glut in the market. Due to these circumstances, the Company managed to mill for only four months. The other challenge was breakdown of key machinery in the factory due to ageing plant. This led to inefficient factory operations which worsened conversion ratios. As a consequence of this, the Company's profitability and cashflow were adversely affected.

OPERATIONS

Factory operations in the first quarter started in the last week after the Company took a strategic decision to resume milling of cane starting with the Nucleus Estate cane so as to generate revenue to procure cane from Outgrowers farms. The move yielded dividend as the farmers who had withheld supply of cane for milling were now availing it and this enhanced cane supply to the mill.

Factory operations in the second quarter were boosted by Kshs.300 Million received from The National Government to off set farmers arrears, all outstanding farmers arrears were cleared and this enhanced cane supply to the mill.

In the third quarter, the company was faced with a serious cane shortage which affected the entire sector in the zone partly as a result of the onset of the long rains which began by mid-March 2018 and also delayed payments to cane farmers due to poor cash flows occasioned by low production and lowest ever sugar prices. The company also experienced some downtime as a result of breakdowns which together with cane accumulation stoppages adversely affected the conversion ratios.

Factory operations in quarter four were halted due to unsustainable out of cane stoppages owing to serious cane shortage which cut across the entire sector in the zone. Cash flow constraints also hampered timely payment to farmers and this discouraged them from supplying cane.

The cumulative impact of all these operations from quarter one to quarter four was a loss of Ksh 822 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 48TCH to 75 TCH. Though these targets were not achieved in the year under review, it is envisaged that the Government commitment to enhance regulations in the sugar sector will mitigate the inadequate cane availability and supply to the factory. The aim of the strategic plan is to achieve optimal operational capacity while at the same time widening the Company's revenue base through diversification into new product lines as we move into a fully liberalized economy.

The COMESA safeguard measures which were expected to lapse by Feb 2019 have been 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 expansion requirements and irrigation project is being enhanced to increase cane yield. The cane development program will continue into the next year where a further 3,700 hectares are targeted.

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

BUSINESS REVIEW

The company continues to contract farmers for cane supply. Improvement in cane availability is being done through planting of high sucrose and early maturing cane within the nucleus estate and extension services to farmers. Continued support with

farm inputs and implements to farmers is on -going. All these efforts are aimed at improving the quantity and quality of the cane being milled. The cane testing unit which will peg cane payment on sucrose content thus ensuring the company gets value for money is almost complete. The company is also keen on its corporate communication policy to ensure it has support from all stakeholders.

PERFORMANCE CONTRACT

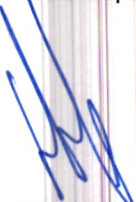
The company entered into a negotiated performance contract with the Government of Kenya for the year 2017/2018 by setting targets in line with the Strategic plan 2017/2018-2021/2022 and the Approved Budget for 2017/2018. The Company did not achieve its profitability target given the conditions it operated in .However few performance indicators were achieved in the year under review due to challenging environment we operated in. There is commitment of the Company's Board, Management and members of staff to continually improve performance and productivity of the Company. As a team we are positive and strongly believe in continued improved performance to achieve and surpass the boundaries of success.

DIVIDENDS

The company remains committed in giving a return on investment to all the shareholders as 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 Board of Directors, I wish to express my gratitude to all our cane farmers who have stood with us during these difficult times . I also wish to thank our suppliers, the Kenya Sugar Directorate and the National Government for the loans given to us , cane transporters, cane development contractors and the sugar customers for their valued support in the last one year. Finally, I would also like to take this opportunity to sincerely thank the management and staff for their hard work and continued commitment to Company goals even during the difficult times experienced for the better part of the year. The Board is optimistic that we shall all improve our performance to meet our targets for future Company sustainability.



CHAIRMAN

REPORT OF MANAGING DIRECTOR

INTRODUCTION

It is my pleasure once again to report on the performance of Chemelil Sugar Company Limited for the year ended 30 June 2018

OVERVIEW

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

PERFORMANCE REVIEW

i. Operations

The factory milled a total of 153,627 tons of cane in the year under review compared to 214,374 tons milled in FY 2017. The Nucleus Estate supplied 32,797 tons of cane compared to 43,046 tons supplied in FY 2017, representing 21% of the total cane supply while the farmers supplied 120,830 tons representing 79%. The amount paid to farmers for cane supply was Ksh. 0.481 billion.

All the cane supplied was milled at a TC/TS ratio of 16.29 to produce 9,114 tons of sugar compared to 14,070 produced in FY 2017, the production represents a 35% 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 favourable cane price prevailing in the market due to competition for cane pushed the average price of cane per ton to Kshs 4,000 compared to price per ton of Kshs.3,854 per in FY 2017 representing a 3.7% increase. Cane pricing committee was involved in setting minimum cane price based on prevailing ex-factory price of sugar.

Administration cost (Finance & Administration and Human Resource) decreased by 26% which is a reflection of the measures taken by the management on cost management.

The molasses and Sugar prices deepened in the market in the year under review compared to previous year. The average price per ton of sugar was Kshs. 85,000 compared to Ksh. 98,858 for FY 2017. The decrease in sugar price was due to unrestricted importation of sugar which led to sugar glut in the market.

ii. Financial Results

The overall performance for the year was an operating loss of KES 822 million arising from cane shortage and factory inefficiencies. This was a 4.12% decrease in the loss recorded as compared to the previous year loss of KES 856 million.

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 Irrigation 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 on quarterly basis. The respective committee Chairpersons present their reports to the full Board at the quarterly meetings. The details of these committees and their membership are highlighted below;-

1. Audit Committee

Members

Ms. Marjorie Nangulu Chairperson

Mr. Jacob Mananda

Mr. Kennedy Odhiambo

Mr. Ezra Odhiambo

Ms. Naomi Assumani

Mr. Benson Owiti

Role and Functions

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

2.Human Resource and Finance Committee

Members

Mr. George Oballa	Chairman
Mr. Richard Aiyabei	
Mr. Kennedy Odhiambo	
Ms. Naomi Assumani	
Ms. Mary Karanja	
Ms. Irene Onunga	
Mr. Gabriel Nyangweso	Mananging Director

Role and Function

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

3. Strategy and Technical Committee

Members

Mr. Benson Owiti	Chairman
Mr. Richard Aiyabei	
Mr. Jacob Mananda	
Eng.Ezra Odhiambo	
Ms. Marjorie Nangulu	
Mr. George Oballa	
Ms. Irene Onunga	
Mr. Gabriel Nyangweso	Managing Director (Ag)
Ms. Mary Karanja	

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 2017/2018 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.75 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 grassroot 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 2018 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 Irrigation - State Department of Crop Development.

2. PRINCIPAL ACTIVITY

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

3. RESULTS

	2018 Shs	2017 Shs
(Loss) before Tax	(821,999,016)	(856,633,133)
Tax	-	-
(loss) for the year	<u>(821,999,016)</u>	<u>(856,633,133)</u>

4. DIVIDEND

The directors do not recommend the declaration of a dividend for the year. (2017 Shs-Nil).

5. DIRECTORS

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

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

6. INDEPENDENT AUDITOR

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

Accordingly, Matengo and Associates was appointed to carry out the audit on behalf of the Auditor General for the year ended 30 June, 2018.

BY ORDER OF THE BOARD

COMPANY CHAIRMAN

.....2018


STATEMENT OF DIRECTORS' RESPONSIBILITIES

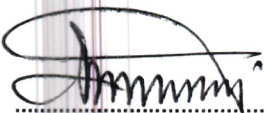
The Companies Act (Cap. 486) requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure the company maintains proper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

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

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

Approved by the board of directors on 21 - 12 - 2018 and signed on its behalf by:


.....
CHAIRMAN


.....
MANAGING DIRECTOR

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of Chemelil Sugar Company Limited set out on pages 18 to 43, which comprise the statement of financial position financial as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Matengo & Associates, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Chemelil Sugar Company Limited as at 30 June, 2018, 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, 2015.

Basis for Qualified Opinion

1. Inaccuracies of the Financial Statements

The opening balance for the borrowings item differs with the audited closing balance for 2016/2017 as follows;

	Audited 30 June 2017 Kshs.	Comparative 30 June 2017 Kshs	Difference Kshs
Borrowings	3,370,400,742	3,373,400,742	(3,000,000)

The difference of Kshs.3,000,000 is not explained. In consequence, the accuracy of the financial statements as at 30 June 2018 cannot be ascertained.

2. Current Liabilities

As reported in the previous years, the Company is unable to meet its statutory liabilities due to Kenya Revenue Authority and other creditors as total current liabilities stand at Kshs.3,085,598,122 (2017 – Kshs.2,806,709,855). In addition to the liabilities, the Company has not quantified interest and penalties on the outstanding balances. Therefore, the current

Report of the Auditor-General on the Financial Statements of Chemelil Sugar Company Limited for the year ended 30 June 2018

liabilities do not include all payables owed by the Company. Consequently, the accuracy of financial statements as at 30 June 2018 is in doubt.

3. Going Concern

The statement of Comprehensive Income for the year ended 30 June 2018 had a loss of Kshs.821,999,016 resulting to accumulated losses of Kshs.6,057,853,932. The current liabilities balance of Kshs.3,085,598,122 exceeds the current assets figure of Kshs.545,892,701 resulting in a negative working capital of Kshs.2,539,705,421 as at 30 June 2018. The Company is therefore technically insolvent and its continued operation as a going concern is therefore dependent upon financial support from the National Government and its creditors.

4. Irregular Sugar Exports

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Chemelil Sugar Company Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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. Except for the matter(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Emphasis of Matter

Budgetary Performance and Control

During the year under review, the Company budgeted for an income of Kshs.4,603,620,899 but only received Kshs.654,685,465 resulting to a variance of Kshs.3,948,934,535 and also planned to spend Kshs.4,328,867,001 but only spent Kshs.1,420,805,639 resulting to a variance of Kshs.2,908,061,361 as indicated in the table below:

Revenue	Budget Kshs.	Actual Kshs.	Variance Kshs.
Net Gross Sales	4,573,970,899	637,406,869	3,936,564,030
Operating Income	26,000,000	13,775,715	12,224,285
Finance Income	3,650,000	3,502,881	147,119
Total Income	4,603,620,899	654,685,465	3,948,935,434
Expenses			
cost of sales and loss in fair value of cane	3,593,012,283	1,071,111,391	2,521,900,892
Administration expenses	317,435,464	114,622,601	202,812,862
Human Resources Costs	267,714,260	150,910,228	116,804,032
Financing Costs	150,704,994	84,161,419	66,543,575
Total Expenditure	4,328,867,001	1,420,805,639	2,908,061,361
Surplus/(Deficit) for the period	274,753,898	(766,120,174)	1,040,874,073

In view of the foregoing, the company does not adhere to the budgeting principles and this is likely to have a negative impact on the final performance of the company activities. In addition, the budget statement was omitted in the financial statement report for the year under review.

REPORT ON COMPLIANCE LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter(s) described in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/Qualified Opinion] 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

1. Cash Management

1.1 Unbanked Revenue

During the year under review, the Company collected revenue totaling Kshs.152,740,581. However, only Kshs.64,518,787 was banked leaving Kshs.88,221,794 unbanked against the Public Finance Management Act, 2012 requires that all cash collected be banked intact.

1.2 Cash Advance/Imprest

During the year under review, it was noted that nine (9) staff were advanced Kshs.8,425,172 for purchase of goods which has not been accounted for as at 30 June 2018. The management therefore were in breach of the law, that requires imposts be surrendered or be accounted for within seven (7) days after issue.

2. Long Outstanding Receivables

It was noted that the Company has debts which are long overdue running for over five (5) years back totaling Kshs.29,513,990 in respect to sugar debtors and molasses debtors of Kshs.23,138,303 and Kshs.6,375,687, respectively. This is mainly due to lack of effective debt management policy in place.

3. Use of Non-Prequalified Suppliers

The Public Procurement and Disposal Act, 2015 Section 93 states that an accounting officer of a procuring entity where applicable may conduct a prequalified procedure as a basic procedure prior to adopting an alternative procurement method other than open tender for the purposes of identifying the best few qualified firms for the subject procurement. However, it was noted that the Company had 175 active suppliers out of which 22 were pre-listed, eight (8) open tendered and 145 were non-prequalified suppliers representing 72% of the total active suppliers with contract valued at Kshs.98,191,284.

Non adherence to the procurement rules and regulations may lead to the Company procuring substandard goods and services.

4. Fixed Asset Register

4.1 The Company did not keep updated Fixed Asset Register to include the following;

- i. Location of the asset and user department
- ii. Expected life
- iii. Depreciation rate
- iv. Net book values
- v. Working conditions

The non update of the fixed assets register is against the Company fixed asset management policy section 8 (asset register) which provides all details to be included in the register. Further, the tagging of the fixed assets were not done to three namely; heavy implements, medical clinic and academy school equipment with various items amounting to Kshs.506,000, Kshs.387,195 and Kshs.1,231,090 respectively all totaling to Kshs.2,124,285 were not tagged.

4.2 Company Land

Note 21 to financial statement under property, plant and equipment reflects the value of Company land as Kshs.1,400,000,000. However, there is no evidence of survey to determine its boundaries, in spite of some neighbors or squatters making claim on a portion of the Company's parcel of land.

5. Loan Default

During the year, the company defaulted on loan agreements relating to Kenya Sugar Board by not honoring the repayment of principal and interest amounting to Kshs.150,686,039 due to cash flow constraints. Therefore, the Company management is in breach of the law.

6. Pension Contribution

During the year under review, the Company failed to remit pension contributions and interest accruing thereof totaling Kshs.143,018,069. Non-compliance with pension regulations will continue to attract penalties and interests.

7. Prior Year Issues

The Company did not resolve all the previous year issues recommended by the Auditor-General, that is, progress on follow-up of the Auditor-General recommendations contrary to the Public Accounting Reporting Template requirement. The management is therefore in breach of the regulation.

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 INTERNAL CONTROLS, EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

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

Basis for Conclusion

Governance

- i. The Company uses an old Cobol Computer Language that does not use the SQL in order to gain access to inter ICT system. The Company hardware and software has become obsolete, the Company uses server which is outdated – WIN Server 2003 and not Windows Server 2016 developed with WIN 10.
- ii. The internal audit department had the following weaknesses:
 - Not exposed to the requirement of good audit working papers
 - Has not carried out any survey on the services of the Company

- Has not prepared risk based audit plans
- It was noted that the department intended to carry out 36 audits during the year, but only 13 were carried out.

Lack of effective audit department compromised governance and oversight responsibility with the Company.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 Company Act, 2015 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, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and
- iii. The Company's statements are in agreement with the accounting records and returns.
- iv. In my opinion, the information given in the report of the directors is consistent with the financial statements.

Responsibilities of Management and Those Charged with Governance

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 governance.

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the or to cease operations, or have no realistic alternative but to do so. 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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 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 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.

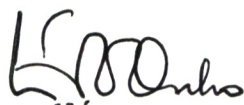
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the 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 ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern or to sustain its services.
- 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 to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

30 May 2019

Report of the Auditor-General on the Financial Statements of Chemelil Sugar Company Limited for the year ended 30 June 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

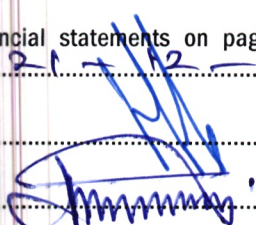
	Note	2018 KShs	2017 KShs
Revenue	2	637,406,869	1,215,872,666
Cost of Sales	3	<u>(1,071,111,391)</u>	<u>(1,570,615,893)</u>
Gross (loss)/profit		(433,704,523)	(354,743,227)
Fair Value gain in biological assets	4	(48,827,260)	(35,547,066)
Other operating income	5	13,775,715	18,366,533
Administrative expenses	6	(265,532,829)	(356,816,300)
Operating (loss)		(734,288,897)	(728,740,059)
Finance costs	9	(84,161,419)	(132,598,087)
Finance income	10	3,502,881	4,705,013
Other charges and expenses	11	<u>(7,051,582)</u>	=
(Loss) before tax		(821,999,016)	(856,633,133)
Tax	12	=	=
(Loss) for the year		<u>(821,999,016)</u>	<u>(856,633,133)</u>
Other comprehensive income:			
Revaluation surplus on property, plant and equipment			=
Deffered tax on revaluation surplus of property, plant and equipment			=
Total comprehensive income for the year		=	=
(Loss) per share	13	<u>(77.7)</u>	<u>(80.97)</u>

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

STATEMENT OF FINANCIAL POSITION

	Note	2018 KShs	2017 KShs
ASSETS			
Non-Current assets			
Property, plant and equipment	21	4,014,007,601	4,129,521,813
Biological assets	22	<u>33,441,355</u>	<u>64,969,530</u>
		4,047,448,956	4,194,491,343
Current assets			
Biological assets	22	60,322,116	77,621,202
Inventories	25	244,646,555	298,435,921
Loans to out growers	23	22,622,565	22,087,820
Trade and other receivables	24	168,043,431	207,621,505
Tax recoverable		15,183,641	15,183,641
Bank and cash balances	26	<u>35,074,394</u>	<u>15,335,805</u>
		545,892,701	636,285,894
TOTAL ASSETS		4,593,341,658	4,830,777,237
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	14	211,591,620	211,591,620
Asset revaluation reserve	15	3,138,455,543	3,139,174,457
Retained Earnings		<u>(6,057,853,932)</u>	<u>(5,236,573,830)</u>
Shareholders' funds		(2,707,806,769)	(1,885,807,753)
Non-current liabilities			
Borrowings	16	3,421,405,574	3,373,400,742
Other accrued liabilities	18	261,325,780	264,352,874
Government grant	19	340,000,000	40,000,000
Deffered Income	20	<u>192,818,951</u>	<u>232,121,518</u>
Total non-current liabilities		4,215,550,305	3,909,875,134
CURRENT LIABILITIES			
Trade and other payables	27	3,058,496,624	2,759,344,219
Borrowings	16	17,401,710	37,665,849
Government grant	19
Dividends payable		<u>9,699,787</u>	<u>9,699,787</u>
Total current liabilities		3,085,598,122	2,806,709,855
TOTAL EQUITY AND LIABILITIES		4,593,341,658	4,830,777,237

The financial statements on pages 1 to 43 were approved and authorized for issue by the Board of Directors on 21/7/18 2018 and signed on its behalf by:-

.....)CHAIRMAN

) MANAGING DIRECTOR

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital KShs.	Revaluation reserve KShs.	Retained Earnings KShs.	Total KShs.
	14 & 15				
As at 30 June 2017		211,591,620	3,140,240,479	(4,381,006,719)	(1,029,174,620)
On disposal		-	(1,066,022)	1,066,022	-
Transfer of excess depreciation		-	-	-	-
Total comprehensive (loss)				(856,633,133)	(856,633,133)
At end of year		<u>211,591,620</u>	<u>3,139,174,457</u>	<u>(5,236,573,830)</u>	<u>(1,885,807,753)</u>
Year ended 30 June 2018					
A start of year		211,591,620	3,139,174,457	(5,236,573,830)	(1,885,807,753)
Realised on disposal		-	(718,914)	718,914	-
Transfer of excess depreciation		-	-	-	-
Loss for the year				(821,999,016)	(821,999,016)
At end of year		<u>211,591,620</u>	<u>3,138,455,543</u>	<u>(6,057,853,932)</u>	<u>(2,707,806,769)</u>

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

STATEMENT OF CASH FLOWS

	Note	2018 KShs	2017 KShs
OPERATING ACTIVITIES			
Cash (used in) /generated from operations	29	(149,978,011)	(66,479,829)
Interest paid		(17,986,410)	(10,964,217)
Interest received		3,502,881	4,705,013
Tax paid		-	-
Net cash (used in) / generated from operating activities		<u>(164,461,539)</u>	<u>(72,739,033)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	21	(28,449,909)	(3,659,097)
Proceeds on disposal of property , plant and equipment		<u>903,760</u>	<u>270,000</u>
Net cash used in investing activities		(27,546,149)	(3,389,097)
FINANCING ACTIVITIES			
Proceeds from Ministry of Agriculture/Commodity Fund		300,000,000	40,000,000
Repayment of borrowings		-	(25,485,737)
Net movement in bank borrowings		(84,161,419)	12,294,337
Interest charged		-	(132,598,087)
Directors' account		-	-
Net cash generated from financing activities		<u>215,838,581</u>	<u>(105,789,487)</u>
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		<u>23,830,893</u>	<u>(181,917,617)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>10,589,475</u>	<u>171,328,142</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26	<u>34,420,386</u>	<u>10,589,475</u>

The notes on page 22 to 44 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 estimate the success rate of harvesting at 35 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. 23,654,677. The significant assumptions used are set out in Note 21.

(c) **Revenue recognition**

Revenue represents the value of sugar and molasses supplied by the company net of Value Added Tax, rebates and discounts. The variance in revenue in the year 2018 compared to the year 2017 was due to major Factory breakdowns which affected throughput, competition for cane in the zone and high conversion ratios due to ageing plant.

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

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

(d) **Translation of foreign currencies**

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

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.

i) Cash and cash equivalents

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

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

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

j) Share capital

Ordinary shares are classified as capital.

k) Dividends

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

l) Taxation

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

Current tax

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

Defered tax

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

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

q) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of presentation of financial statements

At the reporting date current liabilities exceeded current assets by Shs. 2,539,705,421 (2017: Shs. 2,402,545,480). The shareholders fund was Shs. 2,707,806,769 on 30 June 2018. The company has accumulated losses amounting to shs. 6,057,853,932 (2017: shs. 5,236,573,830). 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

	2018	2017
	Shs	Shs
Gross sales	730,334,064	1,400,937,165
Less: Value Added Tax	(92,927,195)	(185,064,499)
Sugar Development levy
Discounts	(-----)	(.....)
Net Sales	<u>637,406,869</u>	<u>1,215,872,666</u>
Gross sales is comprising of the following:		
Revenue from sale of milled local sugar	673,741,778	1,341,723,355
Revenue from sale of Molasses	<u>56,592,286</u>	<u>59,213,810</u>
Total revenue	<u>730,334,064</u>	<u>1,400,937,165</u>

3. Cost of sales

Cost of cane		
Cost of milled cane-Nucleus Estate	146,023,544	153,432,751
Cost of milled cane- Outgrowers Farms	<u>481,525,296</u>	<u>660,400,080</u>
	627,548,840	813,832,831
Factory costs	443,522,924	749,141,075
Increase in closing inventory	<u>39,627</u>	<u>7,641,986</u>
Total cost of sales	<u>1,071,111,391</u>	<u>1,570,615,893</u>

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

Sugar plantation	(48,740,260)	(35,659,066)
Livestock	<u>(87,000)</u>	<u>112,000</u>
	<u>(48,827,260)</u>	<u>(35,547,065)</u>

5. Other operating income

Miscellaneous income	4,820,794	3,213,324
Gain/ (Loss)on disposal of Property, plant and equipment	362,558	(726,250)
Physical inventory adjustment	(3,691,381)	1,377,076
Government grant		1,691,156
Rental income	<u>12,283,744</u>	<u>12,811,227</u>
Total other operating income	<u>13,775,715</u>	<u>18,366,533</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2018	2017
	Shs	Shs
6. Administrative expenses		
Finance and administration department	114,622,601	149,857,625
Loss on disposal of property, plant and equipment	-	-
Human resource department	<u>150,910,228</u>	<u>205,958,675</u>
Total administrative expenses	<u>265,532,829</u>	<u>356,816,300</u>
7. Operating (loss)		
The following items have been charged/(credited) in arriving at operating (loss):		
Depreciation on property, plant and equipment (Note 20)	143,422,920	143,676,108
(Gain)/loss on disposal of property, plant and equipment	(362,558)	726,250
Auditors' remuneration	3,299,748	2,291,663
Directors' emoluments:- Allowances	11,733,875	11,352,823
-fees	-	-
Interest expense	-	-
Other receivables- impairment	-	-
Loan outgrowers- impairment	(529,190)	-
Repairs and maintenance	132,292,287	230,233,791
Staff costs (note 8)	<u>496,888,750</u>	<u>618,975,371</u>
8. Staff costs		
Salaries and wages	477,778,993	600,215,121
Leave pay and allowance	3,706,000	2,885,134
Pension fund contribution:		
-Defined contribution scheme	14,208,757	14,004,916
-National Social Security Fund	<u>1,195,000</u>	<u>1,870,200</u>
	<u>496,888,750</u>	<u>618,975,371</u>
9. Finance costs		
Bank overdraft interest	7,396,935	35,170.75
Loan interest	76,764,483	132,062,916
Penalty charges	-	<u>500,000</u>
Total finance costs	<u>84,161,419</u>	<u>132,598,086</u>
10. Finance income		
Interest income	<u>3,502,881</u>	<u>4,705,013</u>
This represents interest income from loans advanced by the company to employees and farmers.		
11. Other charges and expenses		
Provision for bad and doubtful debts	-	-
-Trade receivables	7,051,582	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2018	2017
	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>(821,999,016)</u>	<u>(856,633,133)</u>
Tax calculated at a tax rate of 30% (2017: 30%)	<u>(246,599,704)</u>	<u>(256,989,940)</u>
Tax effect of:		
-Deferred tax not recognized	-	(48,100,998)
-Expenses not deductible for tax purposes	-	179,949,423
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>(821,999,016)</u>	<u>(856,633,133)</u>
Weighted average number of shares	<u>10,579,581</u>	<u>10,579,581</u>
(Loss) per share	<u>(77.7)</u>	<u>(80.97)</u>
14. Share capital		
Authorised, issued and fully paid		
10,579,581 (2015: 10,579,581) ordinary shares of Shs. 20 each	<u>211,591,620</u>	<u>211,591,620</u>
15. Revaluation reserve		
Property, plant and equipment	<u>3,138,455,543</u>	<u>3,139,174,457</u>
Property, plant and equipment		
-Freehold land	1,400,000,000	1,400,000,000
-Land and buildings	1,079,671,616	1,079,671,616
-Plant equipment and machinery	<u>658,783,927</u>	<u>659,502,841</u>
	<u>3,138,455,543</u>	<u>3,139,174,457</u>
The movements in reserves were as follows:		
Freehold land		
At start of year	1,400,000,000	1,400,000,000
Increase in fair value	-	-
At end of year	<u>1,400,000,000</u>	<u>1,400,000,000</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

15.	Revaluation reserve (continued)	2018	2017
		Shs	Shs
	Buildings		
	At start of year	1,079,671,616	1,079,671,616
	Movement in revaluation	-	-
	Transfer of excess depreciation	-	-
	Deferred tax on excess depreciation transfer	-	-
	At end of year	<u>1,079,671,616</u>	<u>1,079,671,616</u>
	Plant equipment and machinery		
	At start of year	659,502,841	660,568,863
	Movement on disposal	(718,914)	(1,066,022)
	Transfer of excess depreciation	-	-
	Deferred tax on excess depreciation transfer	-	-
	At end of year	<u>658,783,927</u>	<u>659,502,841</u>

Reserves are not distributable.

16.	Borrowings	2018	2017
		Shs	Shs
	The borrowings are made up as follows:		
	Non-current		
	Bank loan	0	28,759,151
	Kenya Sugar Board loan	<u>3,421,405,574</u>	<u>3,344,641,591</u>
		<u>3,421,405,574</u>	<u>3,373,400,742</u>
	Current		
	Bank overdraft (note 26)	654,008	4,746,330
	KCB Insurance Financing loan	0	12,294,337
	Bank loan	<u>16,747,703</u>	<u>20,625,182</u>
		<u>17,4001,710</u>	<u>37,665,849</u>
	Total borrowings	<u>3,438,807,285</u>	<u>3,411,066,591</u>

Borrowings are secured as follows:

a)Bankk overdrafts:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 **borrowings (continued)**

b) Kenya Sugar Board loan

-Debentures over the company's assets

	2018	2017
	<u>%</u>	<u>%</u>
Kenya Sugar Board Loan	3-6	3-6
Bank overdraft/KCB Loan	<u>18</u>	<u>18</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.

	2018	2017
	Shs	Shs
Maturity of non-current borrowings		
Between 1 and 2 years	3,250,782,344	3,192,774,242
Over 2 years	<u>170,623,230</u>	<u>180,626,500</u>
	<u>3,421,405,574</u>	<u>3,373,400,742</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. 150,686,039 due to cash flow constraints.

Borrowings from this institution amounted to 3,421,405,574 (2017: Shs. 3,344,641,591) as at the year end. This include interest payable of Shs. 834,488,702 (2017: 757,724,719) which remained unpaid as at 30 June 2018. The management expects to meet all contractual obligations in the future.

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

	2018	2017
	Shs	Shs
At start of the year	3,344,641,591	3,224,988,663
Proceeds during the year	-	-
Interest charge	76,763,983	121,098,699
Repayment during the year	<u>0</u>	<u>(1,445,772)</u>
At end of year	<u>3,421,405,574</u>	<u>3,344,641,591</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% (2017: 30%). The movement of the deferred tax account is as follows:

	2018	2017
	Shs	Shs
As at year start	-	-
Statement of comprehensive income (credit) (note 1)	-	-
As at year end	-	-

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

	At start of year	(credit)/charge	At
	of comprehensive	to statement	end of year
	income	Shs	Shs
	Shs	Shs	Shs
Deferred tax liabilities			
Property, plant and equipment			
-Historical cost	(27,741,806)	11,545,588	(16,196,217)
-Revaluation surplus	(762,590,868)	(16,737,589)	(779,328,457)
-Biological assets	<u>(42,777,220)</u>	14,648,178	<u>(28,129,041)</u>
	<u>(833,109,893)</u>	9,456,178	<u>(823,653,715)</u>
Deferred tax assets			
Other temporary differences	91,280,478		91,280,478
Tax loss carried forward	<u>741,829,415</u>	(9,456,178)	<u>732,373,237</u>
	<u>833,109,893</u>	(9,456,178)	<u>823,653,715</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.6,057,853,932 (2017: Kshs. 5,236,573,830) 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:

At 1 st July 2016	Gratuity Kshs	Provision for long-term service dues Shs	Provision for outstanding leave days Shs	Total	Shs
At start of year	8,294,822		295,459,588	21,808,192	325,562,602
Statement of comprehensive Income charge	4,654,122		2,704,822	56,981.95	7,415,925
Paid/ utilized during theyear	(4,150,504)		(63,216,136)	(1,259,014)	(68,625,653)
At year end	<u>8,798,440</u>		<u>234,948,274</u>	<u>20,606,160</u>	<u>264,352,875</u>
At 1st July 2017					
At start of year	8,798,440		234,948,274	20,606,160	264,352,875
Statement of comprehensive Income charge	1,363,796		520,000		1,883,796
Paid/ utilized during theyear			(1,763,817)	(3,147,073)	(4,910,890)
At year end	<u>10,162,236</u>		<u>233,704,457</u>	<u>17,459,087</u>	<u>261,325,780</u>

19. Government grants

	2018 Shs	2017 Shs
Road Machinery grant		
At year start	-----	1,691,156
Amount recognized	-----	<u>1,691,156</u>
 At end of year	 -----	 -----
State Department of Agriculture grant		
At year start	40,000,000	
Amount received in the year	<u>300,000,000</u>	<u>40,000,000</u>
 At end of year	 <u>340,000,000</u>	 <u>40,000,000</u>
Total grants	<u>340,000,000</u>	<u>40,000,000</u>
 Current	 -----	
Non-current	<u>340,000,000</u>	<u>40,000,000</u>
	<u>340,000,000</u>	<u>40,000,000</u>

The grant relates to advance of Kshs 40 million and Kshs 300 Million by Government of Kenya to the company which was given for the purposes of paying farmers arrears. There are no conditions attached to the grant.

20. Deferred Income

	2018 Shs	2017 Shs
Prepaid Sugar and molasses	192,818,951	232,121,518

Deferred income consist of pre-sales of sugar and of molasses amounting to Kshs. 191,878,214 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. Property, plant and equipment

Year ended 30 June 2018	Freehold land KShs	Buildings and roads KShs	Plant, equipment and machinery KShs	Motor vehicles and other equipment KShs	Capital work- in-progress KShs	Total KShs
COST OR VALUATION						
At year start	1,400,000,000	1,555,640,000	1,737,324,492	116,455,857	-	4,809,420,349
Additions	-	-	28,096,109	353,800	-	28,449,909
Disposals	-	-	(1,430,000)	-	-	(1,430,000)
At 30 June 2018	<u>1,400,000,000</u>	<u>1,552,640,000</u>	<u>1,763,990,601</u>	<u>116,809,657</u>	<u>-</u>	<u>4,836,440,258</u>
COMPRISING						
Cost	-	3,551,424	628,779,344	107,753,908	-	740,084,676
Valuation	<u>1,400,000,000</u>	<u>1,552,088,576</u>	<u>1,135,211,257</u>	<u>9,055,749</u>	<u>-</u>	<u>4,096,355,582</u>
	<u>1,400,000,000</u>	<u>1,552,640,000</u>	<u>1,763,990,601</u>	<u>116,809,657</u>	<u>-</u>	<u>4,836,440,258</u>
DEPRECIATION						
At 1 July 2017	-	165,286,750	406,179,857	108,431,929	-	679,898,536
On disposal	-	-	(888,798)	-	-	(888,798)
Charge for the year	-	<u>38,891,000</u>	<u>98,336,373</u>	<u>6,195,546</u>	-	<u>143,422,919</u>
At 30 June 2018	<u>-</u>	<u>204,177,750</u>	<u>503,627,432</u>	<u>114,627,475</u>	<u>-</u>	<u>822,432,657</u>
NET CARRYING AMOUNT						
At 30 June 2018	<u>1,400,000,000</u>	<u>1,351,462,250</u>	<u>1,260,363,169</u>	<u>2,182,182</u>	<u>-</u>	<u>4,014,007,601</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Property, plant and equipment

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. Biological assets

	2018	2017
	KShs.	KShs.
a) Bearer assets:		
Plantations – sugar cane	93,103,472	141,843,731
Consumable assets		
- livestock	<u>660,000.</u>	<u>747,000</u>
Total biological assets	<u>93,763,472</u>	<u>142,590,731</u>

b) Details of biological assets:

i) Milk cattle

Held for meat and milk purposes

Quantities at year-end in number of animals

- Mature	8	10
- Immature	4	1
Total	<u>12</u>	<u>11</u>

ii) Sugarcane

Held for sugarcane harvesting

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

- Plant	288.30	296
- Ratoon	<u>1,306.30</u>	<u>1,336</u>

	<u>1,595.60</u>	<u>1,632</u>
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c) Determining fair value of agricultural produce:

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

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

- i) The market price of cane is KShs. 3,700 per tonne (2017: KShs. 4,200 per tonne).
- ii) Growing cane has a productive life of eighteen months. Cane at age of six months and above is assumed to mature after a period of twelve months after the reporting date.
- iii) Climatic conditions will remain the same.
- iv) The fair value per tonne is spread over the crop life from age of one month based on the proportion of cane development costs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. BIOLOGICAL ASSETS (Continued)

e) Reconciliation of carrying amount of biological assets:

i) Sugar cane plantations	2018 KShs	2017 KShs
At the start of the year	141,843,731	177,502,797
Aggregate Gain(Loss) due to changes in fair value (note 4)	(48,740,260)	(35,659,066)
At the end of the year	<u>93,103,471</u>	<u>141,843,732</u>

	2018 KShs	2017 KShs
Apportionment		
Current portion	59,662,116	76,874,202
Non-current portion	<u>33,441,355</u>	<u>64,969,530</u>
	<u>93,103,471</u>	<u>141,843,732</u>

ii) Livestock		
At start of year	747,000	635,000
Aggregate (loss)/gain due to changes in fair value (note 4)	<u>(87,000)</u>	<u>(112,000)</u>
At end of year	<u>660,000</u>	<u>747,000</u>

Total value of biological assets		
Current portion	60,322,116	77,621,201
Non-current portion	<u>33,441,355</u>	<u>64,969,530</u>
	<u>93,763,471</u>	<u>142,590,731</u>

23. Loans to Outgrowers

Co-operative societies	374,015,333.18	372,014,855
Large and medium scale farmers	54,705,991.92	56,582,587
Transport and equipment loans	<u>1,400,003.60</u>	<u>1,518,331</u>
	430,121,328.70	430,115,773
Less: impairment		
Co-operative societies	(365,958,108)	(365,958,108)
Large and medium scale farmers	(40,706,920)	(41,236,110)
Transport and equipment loans	<u>(833,736)</u>	<u>(833,736)</u>
	<u>(407,498,764.02)</u>	<u>(408,027,954)</u>
	22,622,565	22,087,82

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. Loans to outgrowers (continued)

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

24. Trade and other receivables	2018	2017
	KShs	KShs
Trade receivables	61,164,068	36,922,327
Less : Provision for impairment	<u>(29,513,990)</u>	<u>(22,591,029)</u>
Net trade receivables	<u>31,650,078</u>	<u>14,331,298</u>
Other receivables	78,406,163	74,244,072
Less : Provision for impairment	<u>(43,798,468)</u>	<u>(43,798,468)</u>
Net other receivables	<u>34,607,695</u>	<u>30,445,604</u>
Deposits and prepayment	30,116,834	162,844,603
Payables with Debit Balances		
Trade Payables	8,513,947	
Smale Scale Farmers	27,983,136	
Large Scale Farmers	17,065,253	
Payroll Liabilities	17,607,448	
Other Payables	<u>499,039</u>	
	<u>71,668,823</u>	
Trade and Other Receivables	<u>168,043,431</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

	2018	2017
	Shs	Shs
Milled sugar	7,973	47,599
Factory and field stores	258,402,266	288,011,972
Milled sugar-in-process	2,127,850	23,370,896
Unmilled cane	0	0
Filling station	833,187	833,187
Molasses	139,895	775,635
Molasses in process	0	2,607,810
Stationery	1,512,148	2,420,252
Medicines	1,151,400	936,357
Goods-in-Transit	<u>63,334,684</u>	<u>62,295,057</u>
	327,509,402	381,298,768
Less; Impairment for obsolete and slow moving inventories	<u>82,862,847</u>	<u>82,862,847</u>
	<u>244,646,555</u>	<u>298,435,921</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. Cash and Cash equivalents

	2018	2017
	Shs	Shs
Cash at bank and in hand	35,074,394	15,335,805
Short-term bank deposits	-	-
	<u>35,074,394</u>	<u>15,335,805</u>

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

	2018	2017
	Shs	Shs
Cash at bank and in hand	35,074,394	15,335,805
Short-term bank deposits	-	-
Bank overdrafts (note 16)	<u>(654,008)</u>	<u>(4,746,330)</u>
	<u>34,420,386</u>	<u>10,589,475</u>

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

27. Trade and other payables

	2018	2017
	shs	Shs
Staff & Current Deferred Debts with Credit bal.	76,943,870	75,567,334
Trade payables	331,179,116	284,516,811
Cane payables	320,790,550	330,872,800
Value Added Tax	790,464,785	744,751,459
Kenya Sugar Board Levy	474,109,867	474,109,867
Payroll liabilities	924,531,281	616,750,217
Prepaid Sugar Sales	192,818,951	232,121,518
Other payables and accruals	<u>140,477,155</u>	<u>232,775,731</u>
	<u>3,251,315,576</u>	<u>2,991,465,738</u>

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

28. Related party transactions and balances

Commodity Fund loans

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

Directors and Executive staff

During the year Kshs.11.7 Million was incurred on Directors allowances and expenses while Kshs. 14 Million was spent on Heads of Department salaries and allowances.

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. Cash (used in) operations

	2018	2017
	Shs	Shs
Reconciliation of loss before tax to cash (used in) operations (loss before tax)	(821,999,016)	(856,633,133)
Adjustment for:		
Depreciation on property, plant and equipment (note 21)	143,422,919	143,676,108
(Gain)/loss on disposal of property, plant and equipment	(362,558)	726,250
Net fair value gain on biological assets (note 4)	48,827,259	35,547,066
Interest (income)	(3,502,881)	(4,705,013)
Interest expense	84,161,418	132,598,087
Amortisation of government grant	-	(1,691,156)
Decrease provision for other accrued liabilities (note 18)	3,027,094	61,209,729
 Changes in working capital		
-Inventories (note 25)	53,789,366	(45,371,907)
-Trade and other receivables (note 24)	39,578,074	(31,967,892)
-Loan to outgrowers (note 23)	(534,745)	1,824,405
-Restricted cash and cash equivalents	-	-
-Trade and other payables	<u>309,669,247</u>	<u>498,307,628</u>
-Cash (used in) operations	<u>(149,978,010)</u>	<u>(66,479,828)</u>

30. Contingent liabilities

The company is a defendant in various litigations and claims amounting to Kshs. 383 million, which arose in the ordinary course of business. A provision of Ksh 66 million has been made in the financial statements, as the directors believe, based on information currently available, that the ultimate resolution of these legal proceedings is not likely to have a material effect on the operations of the company.

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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 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 2018, 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.7,000,000 (2017: Shs. 9,000,000) arising mainly as a result of higher interest expense on variable borrowings. The capping of interest rates by the Government has reduced 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.

Presentation currency

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

35. Statement of budget and actual comparisons

Revenue	Budget	Actual	Variance
Net Gross Sales	4,573,970,899	637,733,749	3,936,237,150
Operating Income	26,000,000	13,768,445	12,231,555
Finance Income	3,650,000	3,502,881	147,119
Total income	4,603,620,899	655,005,075	3,948,615,824
Expenses			
Cost of sales and loss in fair value of cane	3,593,012,283	1,127,309,779	2,527,441,752
Finance and Administration costs	317,435,464	114,622,601	203,225,862
Human Resources Costs	267,714,260	150,910,228	117,865,931
Financing Costs	150,704,994	84,161,483	73,940,511
Total expenditure	4,328,867,001	1,477,004,091	2,922,474,055
Surplus/(Deficit)for the period	274,753,898	(821,999,016)	1,026,141,769

In the year under review ,the Company experienced operational challenges due to shortage of milling cane in the zone. This led to unfavourable variance in revenue generation and overall loss in the year.