

REPUBLIC OF KENYA



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REPORT



OF

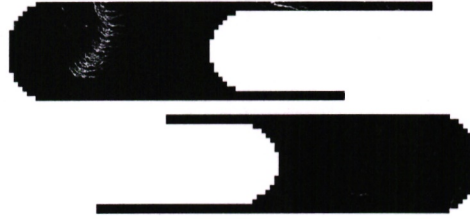
THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2016**





CHEMELIL SUGAR COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016**

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

**CHEMELIL SUGAR COMPANY LIMITED
FINANCIAL STATEMENTS**

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COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. Sammy Choge
Mr. Charles A. Owelle
Permanent Secretary, Ministry of Agriculture
Permanent Secretary, Ministry of Finance, Treasury
Development Bank of Kenya
Agricultural Development Corporation(K) LTD
VIVO Energy(K) LTD
Mr. Benson Owiti
Ms. Irene Onunga
Ms. Marjorie Wasonga Nangulu
Mr. George Oballa

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

CHIEF OFFICERS

Mr. Charles A. Owelle
Mr. Joseph William Omondi
Mr. Albert Aki
Mr. Raphael O. Kamemba
Mrs. Jacinta Kipkering
Mr. Titus Koech
Mr. Henry Okeyo
Mr. Peter Sawe
Mrs. Elizabeth Kyulu
Mr. Joel Kiplagat
Mr. Amos Kosgey

- Managing Director
- Head of Finance
- Head of Agriculture
- Head of Factory
- Head of Human Resources
- Head of Marketing (Ag)
- ICT Manager
- Performance Contracting Manager
- Legal Services Manager
- Harvesting Manager
- Internal Audit Manager(Ag)

REGISTERED OFFICE

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

INDIPENDENT AUDITOR

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

On behalf of:

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

COMPANY SECRETARY

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

CORPORATE INFORMATION (Continued)

PRINCIPAL BANKERS

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

KISUMU





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





LEGAL ADVISORS


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

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



THE BOARD OF DIRECTORS






| DIRECTOR'S NAME | KEY QUALIFICATIONS AND EXPERIENCE |
|--|---|
| <p>1. Mr.Sammy K. Choge</p>  <p>Chairman</p> | <p>Mr. Sammy K. Choge 64 years old, is the Chairman of Board of Directors. He is a holder of Diploma in Public Relations.</p> |
| <p>2. Mr.Charles Apudo Owelle</p>  <p>Managing Director</p> | <p>Mr. Charles Owelle 58 years old, is the Managing Director. He is a holder of Master in Business Administration from University of Nairobi, BSc. Agriculture from University of Nairobi, Certificate in Sugarcane Agronomy from Regional Sugarcane Training Centre for Africa, Mauritius and Corporate Governance Training for Directors from Centre for Corporate Governance. Mr. Owelle is a Member of Agriculture Society of Kenya, Institute of Directors of Kenya and Kenya Institute of Management. He is a Board member of Federation of Kenya Employers (FKE). He has served the Company in various positions since 1987 and has gone up the Corporate ladder to his Current position. He was re-appointed as the Managing Director on 12th May, 2015.</p> |
| <p>3. Ms. Irene Adhiambo Onunga</p>  <p>Independent Director</p> | <p>Ms. Onunga is aged 35 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. Benson Odhiambo Owiti</p>  <p>Independent Director</p> | <p>Mr. Owiti aged is aged 43 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>5. Ms. Marjorie Wasonga Nangulu</p>  <p>Independent Director</p> | <p>Ms.Nangulu holds a Master's degree in Administration, Tourism-Punjabi University India, Advanced diploma in Computer Applications, Computer Center-Chandigarh India and Bachelor of Commerce-Punjabi University, India. She has worked for Citibank N.A as a client experience Head (Kenya and Uganda).</p> |
| <p>6. Mr. George A. O. Oballa</p>  <p>Independent Director</p> | <p>Mr. Oballa, aged 46 years is a holder of a Bachelor of Commerce in Marketing Degree (1992) from University of Nairobi and Advanced Diploma in Marketing (2003) from the Institute of Finance Management. Currently, he is a Director, Lead Consultant at Seydou Resources Ltd and Regional Director for East Africa at Forefinance/Scopelnaight.</p> |
| <p>7. Mr. Jacob Mananda Alternate Director Independent</p> | <p>Mr Mananda represents Development Bank of Kenya.</p> |
| <p>8. Mr. Kennedy Odhiambo</p>  <p>Alternate Director</p> | <p>Mr. Odhiambo represents the National Treasury as per the state Corporation Act.Alternate to Dr.Kamau Thuge,Principal Secretary ,The National Treasury.</p> |
| <p>9. Mr. Richard Aiyabei</p>  <p>Alternate Director (ADC)</p> | <p>Mr. Richard Aiyabei aged 49 years is a holder of MSc. Degree in Agronomy from University of Eldoret, BSc. Degree in Agriculture from Moi University and Diploma in Farm Management from Egerton University. He is currently the Managing Director of the Agricultural Development Corporation a position he rose to progressively since joining the corporation in 1990 as an Assistant Farm Manager. His Directorship roles includes, Director Kenya Seed Company and Director (Chairman) Agro Chemical and Food Company ltd. Mr Richard Aiyabei is a member of World ploughing Board, Kenya Ploughing Organisation (National Chairman), ASK Council Member Eldoret Branch and ASK Member of Executive Committee KPO among others. He represents Agricultural Development Corporation.</p> |

| | |
|---|--|
| <p>10. Ms. Naomi Assumani Alternate Director Vivo Energy</p> | <p>Ms. Assumani represents Vivo Energy.</p> |
| <p>11. Ms. Mary Karanja</p>  <p>Alternate Director Ministry of Agriculture</p> | <p>Ms. Karanja represents Ministry of Agriculture.</p> |

THE MANAGEMENT TEAM

| MANAGER'S NAME | KEY QUALIFICATIONS AND EXPERIENCE |
|---|---|
| <p>1. Mr.Charles Apudo Owelle</p>  <p>Managing Director</p> | <p>Mr. Charles Owelle 58 years old, is the Managing Director. He is a holder of Master in Business Administration from University of Nairobi, BSc. Agriculture from University of Nairobi, Certificate in Sugarcane Agronomy from Regional Sugarcane Training Centre for Africa, Mauritius and Corporate Governance Training for Directors from Centre for Corporate Governance. Mr. Owelle is a Member of Agriculture Society of Kenya, Institute of Directors of Kenya and Kenya Institute of Management. He is a Board member of Federation of Kenya Employers (FKE). He has served the Company in various positions since 1987 and has gone up the Corporate ladder to his Current position. He was re-appointed as the Managing Director on 12th May, 2015.</p> |
| <p>2. Mr. Raphael Kamemba Ondleki</p>  <p>Head of Factory</p> | <p>Aged 56 years, Mr. Kamemba holds a MBA – Strategic Management from University of Nairobi, BSc. Chemistry from University of Nairobi and an International Certificate in Cane Sugar Manufacture from RASTIC, Mauritius. He has training on Industrial Relations Management and Supervisory Skills Management, Consequence Management, Job Evaluation, Energy Efficiency (Germany) and Quality Control for Kenya Food Industries. He was appointed to his current post in the year 2012.</p> |

| | |
|---|---|
| <p>3. Mr. Omondi Joseph William</p>  <p>Head of Finance</p> | <p>Mr. Joseph William Omondi is aged 39 years. He is a holder of Master of Business Administration (Finance option), from University of Nairobi, Bachelor of Business Administration (Accounting and Finance option) from Kenya Methodist University and Certified Public Accountant CPA (K). He is a member of the Institute Certified Public Accountants of Kenya (ICPAK). Mr Omondi has served the Company previously as the Financial Accountant and the Internal Auditor.</p> <p>He was appointed to the position of Head of Finance in 2012.</p> |
| <p>4. Mr. Albert Aki Malango</p>  <p>Head of Agriculture</p> | <p>Mr. Albert Aki is aged 51years. He is a holder of BSc. Agriculture from University of Nairobi and Certificate in Sugarcane Agronomy from RASTIC, Mauritius. He has attended various short courses to enhance his Management skills such as Corporate governance, Rapid Result Initiative, Performance appraisal, Soil and water Conservation among others. Mr Aki has served the Company in various posts since 1993 and has climbed through the corporate ladder to his current position. He was appointed to the position of Head of Agriculture in 2009.</p> |
| <p>5. Ms. Jacqueline Kotonya</p>  <p>Quality Assurance Manager</p> | <p>Ms. Kotonya aged 42 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).</p> <p>She was appointed to her current position in March 2011.</p> |
| <p>6. Ms. Jacinta Kipkering</p>  <p>Head of Human Resource</p> | <p>Ms. Kipkering is aged 46 years. She holds a Master of Business Administration Human Resource option Degree from Moi University, Post graduate Diploma in Human Resource from Moi University and Bachelor of Arts Degree from Moi University. Prior to joining the Company she worked for Eldoret Water and Sanitation Company Limited and Eldoret Municipal Council where she held various positions. She has training on Corporate Governance, Internal Quality Audit, Human Resource Management and Population Management among others.</p> <p>She was appointed to the position of Head of Human Resource in December 2008.</p> |
| <p>7. Mr. Robert Nyakundi</p>  <p>Procurement Manager</p> | <p>Mr. Nyakundi is aged 42 years. He holds a Bachelor of Arts, Business Administration Degree from University of Nairobi and Diploma in Purchasing and supplies Management from Kenya Institute of Management. He is a member of Kenya Institute of Supplies Management (KISM). Mr. Nyakundi is the Chairman of Chemelil Football Club. He was appointed to his current position in July 2009.</p> |

| | |
|---|---|
| <p>8. Mr. Henry Okeyo</p>  <p>ICT Manager</p> | <p>Mr. Okeyo is aged 59 years. He holds a Master of Science, Meteorology degree from University of Nairobi and a Bachelor of Science (Maths and Physics) from University of Nairobi. Mr. Okeyo has training in Effective IT Project Management, Data Communication Networks, Structured Systems Analysis and Design, and Customer Information Control Systems (CICS) He was appointed to the position of ICT manager in 1997.</p> |
| <p>9. Mr. Amos Kosgei</p>  <p>Internal Audit Manager (Ag)</p> | <p>Mr. Amos Kosgei is aged 39. He holds a Bachelor of Commerce Degree from Catholic University of Eastern Africa and is a Certified Public Accountant (CPA (K)). He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He has training on ISO 14001-2004 implementation , Public Procurement and Disposal Act and Information Systems Security. He is currently the secretary to the Integrity Committee of the Company. He was appointed the Internal Audit Manager in acting capacity in August 2015.</p> |
| <p>10. Mr. Titus Koech</p>  <p>Head of Marketing (Ag)</p> | <p>Mr. Koech is aged 58 years. He holds a part II Certificate in Certified Public Accountants of Kenya. Since joining the Company in 1995, Mr. Koech has held Various Accounting positions to his current appointment. He was appointed as Head of Marketing (Acting) on August 2012.</p> |

CHAIRMANS REPORT

It is my pleasure once again to report the performance of Chemelil Sugar Company for the year ended 30 June 2016 as follows.

OVERVIEW

The Company performance in the year under review was challenging as key operating targets and parameters were not achieved. The major constraining factor was frequent breakdown of key machinery in the factory due ageing plant and el-nino rains in the months of October,November and December 2015. This lead to inefficient factory operations which worsened conversion ratios. Cane availability was also another constraints caused by poaching of cane in the zone by other millers. As consequence of these, the companies profitability and cashflow were adversely affected.

OPERATIONS

Despite the cashflow constraints ,the Company prioritized it key activities so as to sustain its growth. Payment to farmers were given high priority and so was cane development.Subsidized fertilizers were availed to both Nucleus and Outgrowers farms.This is expected to reduce cost of production per units and improve the cane yields.

The Company sourced for funds for funds for factory annual maintenance expected to commence in the month of septemeber 2016. Key Performance Indicators are expected to improve to keep the company on recovery path and return to profitability.

FUTURE PROSPECTS

The Company's 5- year strategic plan (2012/13- 2016/2017) major objective is to avail cane supply of 580,000 tons in 2012/2013 and increase progressively to 840,000 tons in the year 2016/2017 by the end of the 5- year period. Cane yield is also projected to increase from 58TCH to 68 TCH .These objectives will mitigate the inadequate cane availability and supply to the factory. The Company also plans to attain optimum utilization of factory capacity at 3,000 TCD and 260 tons. The apex goal 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 ends by February 2017. The Company's improved performance levels should enable it compete, the Company will continue with its factory expansion program and increase the branded sugar production. Cost reduction 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. The cane development program will continue into the next year where a further 3,600 hectares are targeted.

The privatization of the five Government owned sugar mills is at advanced stage. 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 being done through planting of high sucrose and fast maturing cane within the nucleus estate and extension services to farmers. Continued support with farm inputs and implements to farmers is on -going. All these efforts are aimed at improving the quantity and quality of the cane being milled. The cane testing unit which will peg cane payment on sucrose content thus ensuring the company gets value for money put in cane. With the annual maintenance scheduled for September 2016, the prediction is better performance and high returns in terms of financial indicators. The company is also keen on its public relations policy to ensure it has support from all stakeholders.

PERFORMANCE CONTRACT AND ISO CERTIFICATION

The company entered into a negotiated performance contract with the Government of Kenya for the year 2015/2016 by setting targets in line with the Strategic plan 2012/2013-2016/2017 and the Approved Budget for 2015/2016. The Company has maintained favorable performance given the conditions it operates in given and the fact that other performance indicators were achieved except financial indicators for the year under review. This was as a result of the commitment of the Company's Board, Management and members of staff to continually improve performance and productivity of the Company. As a team we are positive and strongly believe in continued improved performance to achieve

and surpass the boundaries of success.

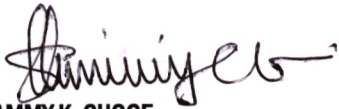
The company continues to embrace the best practices by remaining committed to the ISO 9001:2008 Quality Management Systems and improving processes and systems.

DIVIDENDS

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

APPRECIATION

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



SAMMY K. CHOGE
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 2016.

OVERVIEW

During the year under review, the company experienced myriad of challenges in its operations which included, Factory breakdown due to ageing plant which adversely affected throughput and conversion ratios, poaching of cane from the zone by other millers and Elnino rains which hampered cane harvesting. Due to these constraints the Company milled 49% of the target cane.

Despite the challenges Company continued to give priority to key areas such as payment to farmers and enhancing employee's productivity and retention. The Company continued to maintain assets to enhance their usability in conducting the business of the company. This was achieved through scheduled weekly maintenance of the factory and continuous maintenance of the movable machinery by the Company's field workshop.

PERFORMANCE REVIEW

i. Operations

A total of 358,337 tons (2015 - 363,837 tons) of cane was ground in the year. The Nucleus Estate supplied 53,626 tones (2015- 34,000 tons) of cane, representing 14.9% of the total cane supply while the farmers supplied 304,710 tons (85.10%) of cane worth KES 0.913 billion.

All the cane supplied was ground at a TC/TS ratio of 16.05 to produce 22,332 (2014 - 26,710) tons of sugar, the production represents a 19.60% decrease compared to the previous year. Sugar quality remained high as the Company observed to comply with the Kenya Bureau of Standards (KEBS) Diamond Mark of Quality in both mill white and brown sugars.

The direct cost (Cost of cane and Factory cost) reduced by 1.86% occasioned by reduced cane intake from farmers and the effect of the measures taken to improve on efficiency and effectiveness of the factory plant.

Administration cost (Finance & Administration and Human Resource) decreased by 8.19% which is a reflection of the measures taken by the management to cut on cost and improve on effectiveness and efficiency.

ii. Financial Results

The overall performance for the year was an operating loss of KES 767 million arising from declining sugar prices and increasing competition for cane coupled with decline in factory performance and Elnino rains which hampered cane harvesting. This was a 19.8% increase in the loss recorded as compared to the previous year loss of KES 640 million.

The company has scheduled an annual Maintenance in the Month of September 2016. This is expected to greatly improve the financial performance of the Company as the cost of production reduces and TC/TS ratios improve. The Company finances all its operations through internally generated funds with help from partners like Commodity Fund and other Financial Institutions.

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 for the loan given to us during the year for factory rehabilitation, contractors and the sugar customers 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.



CHARLES A. OWELLE
MANAGING DIRECTOR

STATEMENT OF CORPORATE GOVERNANCE

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

The Board of Directors

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

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

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

Board Meetings

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

Board Committees

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

1. Audit Committee

Members

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

Role and Functions

The Committee meets quarterly or as maybe necessary. It's responsibilities include; the review of interim and full year financial statements so as to ensure compliance with accounting standards and other disclosure requirements; the maintenance of the Company's system of accounting and internal controls; liaison with the external auditors of the Company

and putting into effect their recommendations. The external auditors, internal auditors and the company management may be called to attend any meetings of the Committee to clarify any issue as required by the Committee.

2.Human Resource and Finance Committee

Members

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

Role and Function

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

3. Strategy and Technical Committee

Members

| | |
|----------------------|---|
| Mr. Benson Owiti | - Chairman |
| Mr. Richard Aiyabei | |
| Mr. Jacob Mananda | |
| Ms. Marjorie Nangulu | |
| Mr. George Oballa | |
| Ms. Irene Onunga | |
| Mr. Charles Owelle | -Managing Director |
| Mr. Peter Rutere | - Rep. Inspectorate of State Corporations |

Role and function

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

The Board appoints other committees as and when required.

Communication with Shareholders

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

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

Board Evaluation and Performance

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

Conflict of Interest

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

Mwongozo Code of Governance

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

CORPORATE SOCIAL RESPONSIBILITY(CSR)

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

In the 2015/2016 Financial Year, the Company engaged in various Corporate Social Responsibility (CSR) programs by offering financial support to more than 50 diverse projects located within Kisumu and Nandi Counties, which traverse the Company's cane catchment zone. These include orphanages, churches, Community Based Organizations (CBOs), Persons With Disabilities (PWDs)

Health

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

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

Education

The Company has an elaborate school Education programme with an annual budget of over Kshs.69 Million. The Company directly runs two schools (Chemelil Sugar Academy and Sugar School primary) and hosts two other public primary schools (Factory Primary School and Chemelil B 1).

Sports

The Company sponsors a Football Club which participates in the national premier league. The Club supports local talent and provides sporting entertainment both at national and grassroots level. The company also runs a stadium which is available on request for local schools for their sporting competitions.

Other CSR Activities

During the year under review the Company supported CSR activities largely from the two counties as follows;

- Rehabilitation of burnt down schools i.e. S.D.A Labuiwo Academy
- Infrastructural and physical facilities development in educational institutions.
- Graveling of sugar feeder roads; In- Kisumu County, the Company graded 4.8 kilometres of sugar feeder roads covering Mibasi-Mikiria, and 6 kilometres covering the stretch between Mibasi-Okwatch-Makindu all undertaken by the Company in collaboration with Kisumu County Government and Muhoroni Constituency Development Fund (CDF). And, in Nandi County, the Company graded and rehabilitated 7 Kilometres of the Kopere-Potopoto sugar feeder road

Participation in the Agricultural Society of Kenya (ASK) Show

The Company participates in Agricultural Society of Kenya (A.S.K) Shows namely, Kisumu Regional Show, Eldoret A.S.K Show and Nandi (Kapsabet) Harambee Agricultural Show.

DIRECTORS REPORT

The directors submit their report together with the audited financial statements of the company for the year ended 30 June 2016 which disclose the state of affairs of the company.

1. PRINCIPAL ACTIVITY

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

2. RESULTS

| | 2016 Shs | 2015 shs |
|---------------------|----------------------|----------------------|
| (Loss) before Tax | (767,454,578) | (640,035,106) |
| Tax | - | - |
| (loss) for the year | <u>(767,454,578)</u> | <u>(640,035,106)</u> |

3. DIVIDEND

The directors do not recommend the declaration of a dividend for the year.(2015 Shs-Nil).

4. 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.

5. INDEPENDENT AUDITOR

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

Accordingly, Matengo and Associates were appointed to carry out the audit on behalf of the Auditor General for the year ended 30 June, 2016.

BY ORDER OF THE BOARD


COMPANY CHAIRMAN

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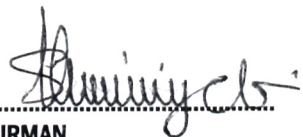
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 30-12-2016 2016 and signed on its behalf by:


.....
CHAIRMAN


.....
MANAGING DIRECTOR

REPUBLIC OF KENYA

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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 2016

REPORT OF THE FINANCIAL STATEMENTS

The accompanying financial statements of Chemelil Sugar Company Limited set out on pages 17 to 43, which comprise the statement of financial position as at 30 June 2016, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant policies and other explanatory information have been audited on my behalf by Matengo & Associates, auditors appointed under the provisions of 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.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures elected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

Report of the Auditor-General on the Financial Statements of Chemelil Sugar Company Limited for the year ended 30 June 2016

opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Going Concern

During the year, the Company's performance continued to deteriorate as it incurred a loss of Kshs.767,454,578 (2014/15-loss Kshs.640,035,106) which brought its accumulated losses of Kshs.4,381,006,719. In addition, the current liabilities exceed the current assets by Kshs.1,741,712,392 as at 30 June 2016. Evidently, the company is technically insolvent and its continued operations as a going concern is therefore dependent on financial support from the Government, trade payables and its bankers.

2. Export Sugar

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

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 indicates as paid. It was however, not satisfactorily explained how sugar meant for export ended up in the local market. Though the issue was subsequently handed over to the Ethics and Anti-Corruption Commission for investigations, the matter has not been concluded to date.

3. Statutory Liabilities

As previously reported, the company has been slowly paying statutory liabilities due to the Kenya Revenue Authority and the Kenya Sugar Board on the due dates. The management has included Kshs.1,039,337,022 (2015 - Kshs.868,788,613) of these liabilities in the trade and other payables balance disclosed under note 26 of the financial statements. Interest and penalties on the outstanding balance have not been quantified and incorporated in these financial statements by the management.

Qualified Opinion

In my opinion, except for the effect of matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Chemelil Sugar Company Limited as at 30 June 2016, 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 Kenyan Companies Act.

REPORT ON OTHER LEGAL AND REPORTING REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit:
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books and,
- iii. The Company's statements of financial position and comprehensive income are in agreement with the books of account.



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

Nairobi

10 April 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

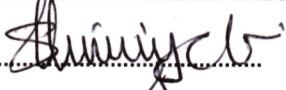

| | Note | 2016 KShs | 2015 KShs |
|--|------|------------------------|------------------------|
| Revenue | 2 | 1,514,304,644 | 1,809,525,283 |
| Cost of Sales | 3 | <u>(1,772,739,261)</u> | <u>(1,861,913,738)</u> |
| Gross (loss)/profit | | (258,434,617) | (52,388,455) |
| Fair Value gain in biological assets | 4 | 10,407,439 | 13,133,252 |
| Other operating income | 5 | 26,193,550 | 38,297,744 |
| Administrative expenses | 6 | (402,330,504) | (503,277,543) |
| Operating (loss) | | (624,164,132) | (504,235,002) |
| Finance costs | 9 | (146,118,839) | (137,981,527) |
| Finance income | 10 | <u>2,828,393</u> | <u>2,181,423</u> |
| (Loss) before tax | | (767,454,578) | (640,035,106) |
| Tax | 12 | = | = |
| (Loss) for the year | | <u>(767,454,578)</u> | <u>(640,035,106)</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>(72.54)</u> | <u>(60.49)</u> |

The notes on pages 5 to 31 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

| | Note | 2016 KShs | 2015 KShs |
|--------------------------------------|------|-------------------------------|-----------------------------|
| ASSETS | | | |
| Non-Current assets | | | |
| Property, plant and equipment | 20 | 4,270,830,075 | 4,410,869,699 |
| Biological assets | 21 | <u>37,871,278</u> | <u>59,254,402</u> |
| | | 4,308,701,353 | 4,470,124,101 |
| Current assets | | | |
| Biological assets | 21 | 140,266,519 | 108,475,956 |
| Inventories | 24 | 253,064,014 | 293,076,555 |
| Loans to out growers | 22 | 23,912,225 | 24,012,978 |
| Trade and other receivables | 23 | 175,653,613 | 152,130,555 |
| Tax recoverable | | 15,183,641 | 15,183,641 |
| Bank and cash balances | 25 | <u>233,134,081</u> | <u>15,173,690</u> |
| | | 841,214,093 | 608,053,375 |
| TOTAL ASSETS | | <u>5,149,915,446</u> | <u>5,078,177,476</u> |
| EQUITY AND LIABILITIES | | | |
| Capital and Reserves | | | |
| Share capital | 14 | 211,591,620 | 211,591,620 |
| Asset revaluation reserve | 15 | 3,140,240,479 | 3,140,738,185 |
| Retained Earnings | | <u>(4,381,006,719)</u> | <u>(3,614,049,847)</u> |
| Shareholders' funds | | <u>(1,029,174,620)</u> | <u>(261,720,042)</u> |
| Non-current liabilities | | | |
| Borrowings | 16 | 3,270,600,978 | 2,912,197,476 |
| Other accrued liabilities | 18 | 325,562,603 | 373,120,955 |
| Government grant | 19 | <u>-----</u> | <u>-----</u> |
| Total non-current liabilities | | <u>3,596,163,581</u> | <u>3,285,318,431</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 26 | 2,493,158,110 | 1,938,334,187 |
| Borrowings | 16 | 78,377,432 | 93,491,641 |
| Government grant | 19 | 1,691,156 | 13,053,472 |
| Dividends payable | | <u>9,699,787</u> | <u>9,699,787</u> |
| Total current liabilities | | <u>2,582,926,485</u> | <u>2,054,579,087</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>5,149,915,446</u> | <u>5,078,177,476</u> |

The financial statements on pages 5 to 31 were approved and authorized for issue by the Board of Directors on 30-12-2016 and signed on its behalf by:-

..... ) CHAIRMAN
 ) MANAGING DIRECTOR

STATEMENT OF CHANGES IN EQUITY

| | Notes | Share capital KShs. | Revaluation reserve KShs. | Retained Earnings KShs. | Total KShs. |
|---|-------|---------------------------|---------------------------------|-------------------------------|------------------------|
| As at 30 th June 2015 | | 211,591,620 | 3,140,738,185 | (2,974,014,741) | 378,315,064 |
| On revaluation | | - | - | - | - |
| Transfer of excess depreciation | 15 | - | - | - | - |
| Total comprehensive (loss) | | - | - | (640,035,106) | (640,035,106) |
| At end of year | | <u>211,591,620</u> | <u>3,140,738,185</u> | <u>(3,614,049,847)</u> | <u>(261,720,042)</u> |
| Year ended 30th June 2016 | | | | | |
| A start of year | | 211,591,620 | 3,140,738,185 | (3,614,049,847) | (261,720,042) |
| Realised on disposal | | - | (497,706) | 497,706 | - |
| Transfer of excess depreciation | | - | - | - | - |
| Loss for the year | | - | - | (767,454,578) | (767,454,578) |
| At end of year | | <u>211,591,620</u> | <u>3,140,240,479</u> | <u>(4,381,006,719)</u> | <u>(1,029,174,620)</u> |

The notes on pages 5 to 31 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

| | Note | 2016 KShs | 2015 KShs |
|---|------|---------------------|----------------------|
| OPERATING ACTIVITIES | | | |
| Cash (used in) /generated from operations | 28 | 116,799,803 | (147,503,950) |
| Interest paid | | (28,829,114) | (135,781,527) |
| Interest received | | 2,828,393 | 2,181,423 |
| Tax paid | | - | - |
| Net cash (used in) / generated from operating activities | | <u>90,799,023</u> | <u>(281,104,054)</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 20 | (4,020,734) | (126,852,983) |
| Proceeds on disposal of property , plant and equipment | | <u>-----</u> | <u>-----</u> |
| Net cash used in investing activities | | <u>(4,020,734)</u> | <u>(126,852,983)</u> |
| FINANCING ACTIVITIES | | | |
| Proceeds from Kenya Sugar Board (KSB) borrowings | | 248,218,180 | 309,353,624 |
| Repayment of KSB borrowings | | (8,776,915) | (34,704,054) |
| Net movement in bank borrowings | | 7,629,494 | (25,705,692) |
| Interest charged | | (123,518,152) | (115,628,488) |
| Directors' account | | - | - |
| Net cash generated from financing activities | | <u>123,552,607</u> | <u>364,572,346</u> |
| (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS | | <u>210,330,896</u> | <u>(43,384,691)</u> |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | <u>(17,823,805)</u> | <u>25,560,886</u> |
| Increase/(Decrease) | | <u>210,330,896</u> | <u>(43,384,691)</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 25 | <u>192,507,091</u> | <u>(17,823,805)</u> |

The notes on page 5 to 31 form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

(i) New and amended standards adopted by the company

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

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

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

Amendment to IAS 24 (Annual Improvements to IFRSs Cycle, issued in December 2013)

Applicable to annual periods beginning on or after 1 July 2014, the amendment clarifies on disclosure of payments to entities providing management services.

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

Amendment to IFRS 8 (Annual Improvements to IFRSs Cycle, issued in December 2013)

Applies to the annual periods beginning on or after 1 July 2014, provides for disclosure of the judgements made by management in applying the aggregation criteria to operating segments, and clarifies that reconciliations of the total of the reportable segments' assets to the entity's assets be disclosed only if the segment assets are reported regularly.

Amendment to IAS 40 (Annual Improvements to IFRSs Cycle, issued in December 2013)

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

Amendment to IFRS 3 (Annual Improvements to IFRSs Cycle, issued in December 2013)

Applicable prospectively to annual periods beginning on or after 1 July 2014, the amendment clarifies that standard excludes from its scope accounting for the formation of any joint arrangement in the financial statements of the joint arrangement itself.

Amendment to IFRS 13 (Annual Improvements to IFRSs Cycle, issued in December 2013)

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

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

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

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

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

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

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

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

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

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

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

Impact of standards and interpretation:

The directors anticipate that the adoption of new Standards, Amendments and Interpretations resulting from the International Accounting Standards Board (IASB)'s improvements to IFRS listed above will have no material impact on the financial statements of the company and will be adopted as need arises according to the existing policies and strategies. The IASB's annual improvements process deals with non-urgent, minor amendments to standards.

(b) **Critical accounting estimates and judgements**

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

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 62 tonnes of cane per hectare. Should the success rate fall by 10% from the estimate assumed by the management, the fair valuation of biological assets would decrease by Shs. 26,486,310. The significant assumptions used are set out in Note 21.

(c) **Revenue recognition**

Revenue represents the value of sugar and molasses supplied by the company net of sugar Development Fund Levy, Value Added Tax, rebates and discounts. The variance in revenue in the year 2016 compared to the year 2015 was due to major Factory breakdown which affected throughput, competition for cane in the zone and high conversion ratios due to ageing plant.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(d) Translation of foreign currencies

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

(e) Property, Plant and Equipment

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

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

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

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

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

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

| | Rate % |
|-------------------------------|---------------|
| 1)Buildings and roads: | |
| Buildings | 2.50% |
| Roads | 12.25% |

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment and depreciation (continued)

ii) Plant, equipment and machinery:

| | |
|-------------------------------------|--------|
| Factory plant and machinery | 5.00% |
| Irrigation project | 6.67% |
| Agricultural implements | 10.00% |
| Wheeled tractors and cane loaders | 12.25% |
| Crawling tractors | 10.00% |
| Trailers and caterpillar implements | 8.33% |

iii) Motor vehicles and other equipment:

| | |
|---|--------|
| Lorries and land rovers | 16.67% |
| Other vehicles | 20.00% |
| Office machines, fittings and equipment | 20.00% |
| Household equipment | 20.00% |
| Office furniture | 10.00% |
| Computer hardware | 25% |

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

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

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

(f) Impairment of non financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments

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

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

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

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

Financial liabilities

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

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

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

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

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

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

Offsetting financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Inventories

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

i) Cash and cash equivalents

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

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

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

j) Share capital

Ordinary shares are classified as capital.

k) Dividends

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

l) Taxation

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

Current tax

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

Deferred tax

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

m) Employee entitlements

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Retirement benefit obligations

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

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

o) Biological assets

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

p) Government grants

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

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

q) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of presentation of financial statements

At the reporting date current liabilities exceeded current assets by Shs. 1,741,712,392 (2015: Shs. 1,446,525,712). The shareholders fund was Shs. (1,029,174,620) on 30th June 2016. The company has accumulated losses amounting to shs. 4,381,006,719 (2015: 3,614,049,847). 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

| | 2016 Shs | 2015 Shs |
|---|----------------------|----------------------|
| Gross sales | 1,820,129,518 | 2,177,340,681 |
| Less: Value Added Tax | (246,544,457) | (297,161,267) |
| Sugar Development levy | (59,280,417) | (70,654,131) |
| Discounts | (-----) | (.....) |
| Net Sales | <u>1,514,304,644</u> | <u>1,809,525,283</u> |
| Gros sales comprising of the following: | | |
| Revenue from sale of milled local sugar | 1,787,993,436 | 2,122,236,138 |
| Revenue from sale of Molasses | <u>32,136,082</u> | <u>55,104,543</u> |
| Total revenue | <u>1,820,129,518</u> | <u>2,177,340,681</u> |

3. Cost of sales

| | | |
|-------------------------------|----------------------|----------------------|
| Cost of cane | 1,087,493,682 | 1,162,264,717 |
| Factory costs | 655,131,560 | 639,172,897 |
| Increase in closing inventory | <u>30,114,019</u> | <u>60,476,124</u> |
| Total cost of sales | <u>1,772,739,261</u> | <u>1,861,913,738</u> |

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

| | | |
|------------------|-------------------|-------------------|
| Sugar plantation | 10,572,439 | 12,993,252 |
| Livestock | <u>(165,000)</u> | <u>140,000</u> |
| | <u>10,407,439</u> | <u>13,133,252</u> |

5. Other operating income

| | | |
|---|-------------------|-------------------|
| Miscellaneous income | 599,944 | 1,152,232 |
| Gain on disposal of Property, plant and equipment | 699,990 | |
| Physical inventory adjustment | 1,238,118 | 3,913,888 |
| Government grant | 11,362,316 | 11,362,316 |
| Irrigation grant | | 10,000,000 |
| Rental income | <u>12,293,182</u> | <u>11,869,308</u> |
| Total other operating income | <u>26,193,550</u> | <u>38,297,744</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

| | 2016 Shs | 2015 Shs |
|--|---------------------|---------------------|
| 6. Administrative expenses | | |
| Finance and administration department | 186,505,698 | 180,483,135 |
| Loss on disposal of property, plant and equipment | - | - |
| Human resource department | <u>215,824,806</u> | <u>322,794,408</u> |
| Total administrative expenses | <u>402,330,504</u> | <u>503,277,543</u> |
| 7. Operating (loss) | | |
| The following items have been charged/(credited) in arriving at operating (loss): | | |
| Depreciation on property, plant and equipment (Note 20) | 143,761,179 | 144,835,588 |
| (Gain)/loss on disposal of property, plant and equipment | ----- | ----- |
| Auditors' remuneration | 2,000,000 | 1,465,386 |
| Directors' emoluments:- Allowances | 11,977,715 | 5,949,520 |
| -fees | - | - |
| Interest expense | - | - |
| Other receivables- impairment | - | - |
| Loan outgrowers- impairment | - | - |
| Repaires and maintenance | 133,603,647 | 362,246,442 |
| Staff costs (note 8) | <u>611,041,653</u> | <u>529,607,950</u> |
| 8. Staff costs | | |
| Salaries and wages | 592,446,855 | 511,988,350 |
| Leave pay and allowance | 2,944,750 | 2,680,450 |
| Pension fund contribution: | | |
| -Defined contribution scheme | 13,691,407 | 12,916,747 |
| -National Social Security Fund | <u>1,958,640</u> | <u>2,022,403</u> |
| | <u>611,041,653</u> | <u>529,607,950</u> |
| 9. Finance costs | | |
| Bank overdraft interest | 20,792 | 16,027 |
| Loan interest | 144,898,047 | 135,765,500 |
| Penalty charges | <u>1,200,000</u> | <u>2,200,000</u> |
| Total finance costs | <u>146,118,839</u> | 137,981,527 |
| 10. Finance income | | |
| Interest income | <u>2,828,393</u> | <u>2,181,423</u> |
| This represents interest income from loans advanced by the company to employees and farmers. | | |
| 11. Other charges and expenses | | |
| Provision for bad and doubtful debts | | |
| -Loans to outgrowers (societies) | - | - |
| -Other receivables | - | - |
| Total other charges and expenses | - | - |

NOTES TO THE FINANCIAL STATEMENTS (continued)

| | 2016 | 2015 |
|--|----------------------|----------------------|
| | 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>(767,454,578)</u> | <u>(562,243,530)</u> |
| Tax calculated at a tax rate of 30% (2015: 30%) | <u>(230,236,373)</u> | <u>(168,673,059)</u> |
| Tax effect of: | | |
| -Deferred tax not recognized | (94,798,772) | (94,798,772) |
| -Expenses not deductible for tax purposes | 174,939,184 | 143,825,747 |
| Tax charge | <u>-----</u> | <u>=</u> |
| 13. (Loss) per share | | |
| (Loss) per share is calculated by dividing the (loss) attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year | | |
| (loss) attributable to equity holders | <u>(767,454,578)</u> | <u>(640,035,106)</u> |
| Weighted average number of shares | <u>10,579,581</u> | <u>10,579,581</u> |
| (Loss) per share | <u>(72.54)</u> | <u>(60.49)</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>3,269,329,795</u> | <u>3,269,329,795</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>784,748,017</u> | <u>784,748,017</u> |
| | <u>3,264,419,632</u> | <u>3,264,419,632</u> |
| The movements in reserves wereas follows: | | |
| Freehold land | | |
| At start of year | 1,400,000,000 | 1,400,000,000 |
| Increase in fair value | <u>-</u> | <u>-</u> |
| 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) | 2016 Shs | 2015 Shs |
|--|----------------------|----------------------|
| Buildings | | |
| At start of year | 1,079,671,616 | 1,079,671,616 |
| Movement in revaluation | - | - |
| Transfer of excess depreciation | - | - |
| Deferred tax on excess depreciation transfer | - | - |
| At end of year | <u>1,079,671,616</u> | <u>1,079,671,616</u> |
| Plant equipment and machinery | | |
| At start of year | 784,748,017 | 784,748,017 |
| Movement in revaluation | - | - |
| Transfer of excess depreciation | - | - |
| Deferred tax on excess depreciation transfer | - | - |
| At end of year | <u>784,748,017</u> | <u>784,748,017</u> |

Reserves are not distributable.

| 16. Borrowings | 2016 Shs | 2015 Shs |
|--|----------------------|----------------------|
| The borrowings are made up as follows: | | |
| Non-current | | |
| Bank loan | 45,612,315 | 50,168,230 |
| Kenya Sugar Board loan | <u>3,224,988,663</u> | <u>2,862,029,246</u> |
| | <u>3,270,600,978</u> | <u>2,912,197,476</u> |
| Current | | |
| Bank overdraft (note 25) | 40,626,990 | 32,997,496 |
| KCB Insurance Financing loan | 11,365,007 | 14,575,068 |
| Bank loan | <u>26,385,435</u> | <u>45,919,077</u> |
| | <u>78,377,432</u> | <u>93,491,641</u> |
| Total borrowings | <u>3,348,978,410</u> | <u>3,005,689,117</u> |

Borrowings are secured as follows:

a) Bank overdrafts:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 borrowings (continued)

b) Kenya Sugar Board loan

-Debentures over the company's assets

| | 2016 | 2015 |
|-------------------------|-------------|-------------|
| | <u>%</u> | <u>%</u> |
| Kenya Sugar Board loan | 3-6 | 3-6 |
| Bank overdraft/KCB Loan | <u>19</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.

| | 2016 | 2015 |
|---|----------------------|----------------------|
| | Shs | Shs |
| Maturity of non-current borrowings | | |
| Between 1 and 2 years | 3,110,355,754 | 2,759,150,074 |
| Over 2 years | <u>160,245,224</u> | <u>153,047,402</u> |
| | <u>3,270,600,978</u> | <u>2,912,197,476</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. 450,600,500 due to cash flow constraints.

Borrowings from this institution amounted to 3,224,988,663 (2015: Shs. 2,862,029,246) as at the year end. This include interest payable of Shs. 638,071,790 (2015: 524,503,005) which remained unpaid as at 30th June 2016. 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 :

| | 2016 | 2015 |
|---------------------------|----------------------|----------------------|
| | Shs | Shs |
| At start of the year | 2,862,029,246 | 2,471,751,188 |
| Proceeds during the year | 248,218,180 | 309,353,624 |
| Interest charged | 123,518,152 | 115,628,488 |
| Repayment during the year | <u>(8,776,915)</u> | <u>(34,704,054)</u> |
| At end of year | <u>3,224,988,663</u> | <u>2,862,029,246</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% (2013: 30%). The movement of the deferred tax account is as follows:

| | 2016 Shs | 2015 Shs |
|---|-------------|-------------|
| As at year start | - | - |
| Statement of comprehensive income (credit) (note 1) | - | - |
| As at year end | - | - |

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

| | At start of year of comprehensive income Shs | (credit)/charge to statement Shs | At end of year Shs |
|-----------------------------------|---|--|--------------------------|
| Deferred tax liabilities | | | |
| Property, plant and equipment | | | |
| -Historical cost | (65,513,334) | 23,982,215 | (41,531,119) |
| -Revaluation surplus | (810,139,862) | 23,901,429 | (786,238,433) |
| -Biological assets | (50,319,107) | 3,122,232 | (53,441,339) |
| | (925,972,304) | 44,761,412 | (881,210,891) |
| Deferred tax assets | | | |
| Other temporary differences | 100,551,557 | (9,271,079) | 91,280,478 |
| Tax loss carried forward | 825,420,747 | (35,490,333) | 789,930,413 |
| | 925,972,304 | (44,761,412) | 881,210,891 |
| 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.- 4,967,899,203 (2015: Kshs. 4,204,013,185) because it is not expected that the company will have taxable profits in the foreseeable future against which the the temporary differences and tax losses can be utilized. The Kenyan Income Tax Act requires tax losses to be utilized within four years from the date which they were incurred and for any tax losses incurred before 1st January 2010 are deemed to have been incurred on that date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Other accrued liabilities:

| At 1 st July 2014 | Gratuity | Provision for long-term service dues | Provision for outstanding leave days | Total | |
|--|-------------------|--------------------------------------|--------------------------------------|--------------------|--|
| | Kshs | Shs | Shs | Shs | |
| At start of year | 9,049,688 | 266,805,352 | 29,553,590 | 305,408,630 | |
| Statement of comprehensive Income charge | 3,815,731 | 93,935,867 | | 96,751,598 | |
| Paid/utlized during theyear | (2,193,567) | (26,158,739) | (686,967) | (29,039,273) | |
| At year end | <u>10,671,851</u> | <u>333,582,480</u> | <u>28,866,623</u> | <u>373,120,955</u> | |
| At July 2015 | | | | | |
| At start of year | 10,671,851 | 333,582,480 | 28,866,623 | 373,120,955 | |
| Statement of comprehensive Income charge | 18,445,341 | 40,088,340 | 725,752 | 59,259,433 | |
| Paid/utlized during theyear | (20,822,370) | (78,211,232) | (7,784,183) | (106,817,785) | |
| At year end | <u>8,294,822</u> | <u>295,459,588</u> | <u>21,808,192</u> | <u>325,562,603</u> | |

19. Government grants

| | 2016 Shs | 2015 Shs |
|-----------------------------|-------------------|---------------------|
| Road Machinery grant | | |
| At year start | 13,053,472 | 24,415,788 |
| Amount recognized | <u>11,362,316</u> | <u>(11,362,316)</u> |
| At end of year | <u>1,691,156</u> | <u>13,053,472</u> |
| Irrigation grant | | |
| At year start | | 10,000,000 |
| Amount recognized | | <u>10,000,000</u> |
| At end of year | | |
| Total grants | <u>1,691,156</u> | <u>13,053,472</u> |
| Current | 1,691,156 | 13,053,472 |
| Non-current | | |
| | <u>1,691,156</u> | <u>13,053,472</u> |

The grant relates to advance of Kshs 113.2 million by Government of Kenya to the company which was given for the purposes of procurement of tractors .There are no conditions attached to the grant. The grant is recognized in profit or loss over useful life of assets procured with the grant.

20. **Property, plant and equipment**

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

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.

20. Property, plant and equipment

| | Freehold land KShs | Buildings and roads KShs | Plant, equipment and machinery KShs | Motor vehicles and other equipment KShs | Capital work- in-progress KShs | Total KShs |
|--------------------------------|--------------------------|--------------------------------|--|---|--------------------------------------|----------------------|
| Year ended 30 June 2015 | | | | | | |
| COST OR VALUATION | | | | | | |
| At year start | 1,400,000,000 | 1,555,640,000 | 1,607,984,090 | 114,126,445 | - | 4,677,750,535 |
| Additions | - | - | 125,575,346 | 1,277,637 | - | 126,852,983 |
| Disposals | - | - | - | - | - | - |
| At 30 June 2015 | <u>1,400,000,000</u> | <u>1,555,640,000</u> | <u>1,733,559,436</u> | <u>115,404,082</u> | - | <u>4,804,603,518</u> |
| COMPRISING | | | | | | |
| Cost | - | 3,551,424 | 594,582,179 | 105,821,333 | - | 703,954,936 |
| Valuation | <u>1,400,000,000</u> | <u>1,552,088,576</u> | <u>1,138,977,257</u> | <u>9,582,749</u> | - | <u>4,100,648,582</u> |
| | <u>1,400,000,000</u> | <u>1,555,640,000</u> | <u>1,733,559,436</u> | <u>115,404,082</u> | - | <u>4,804,603,518</u> |
| DEPRECIATION | | | | | | |
| At 1 July 2014 | - | 48,613,750 | 115,778,966 | 85,305,509 | - | 249,698,225 |
| On disposal | - | - | - | - | - | - |
| Charge for the year | - | <u>38,891,000</u> | <u>97,045,590</u> | <u>8,098,993</u> | - | <u>144,035,588</u> |
| At 30 June 2015 | - | <u>87,504,750</u> | <u>212,824,556</u> | <u>93,404,402</u> | - | <u>393,733,808</u> |
| NET CARRYING AMOUNT | | | | | | |
| At 30 June 2015 | <u>1,400,000,000</u> | <u>1,468,135,250</u> | <u>1,520,734,880</u> | <u>21,999,669</u> | - | <u>4,410,869,699</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Biological assets

| | 2016 | 2015 |
|--------------------------------|--------------------|--------------------|
| | KShs. | KShs. |
| a) Bearer assets: | | |
| Plantations – sugar cane | 177,502,797 | 166,930,358 |
| Consumable assets | | |
| - livestock | <u>635,000</u> | <u>800,000</u> |
| Total biological assets | <u>178,137,797</u> | <u>167,730,358</u> |

b) Details of biological assets:

i) Milk cattle

Held for meat and milk purposes

Quantities at year-end in number of animals

| | | |
|------------|-----------|-----------|
| - Mature | 13 | 19 |
| - Immature | <u>3</u> | <u>2</u> |
| Total | <u>16</u> | <u>21</u> |

ii) Sugarcane

Held for sugarcane harvesting

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

| | | |
|----------|--------------|--------------|
| - Plant | 446 | 635 |
| - Ratoon | <u>1120</u> | <u>1,154</u> |
| | <u>1,566</u> | <u>1,789</u> |

c) Determining fair value of agricultural produce:

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

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

- i) The market price of cane is KShs. 3,400 per tonne (2015: KShs. 3,000 per tonne).
- ii) Growing cane has a productive life of eighteen months. Cane at age of six months and above is assumed to mature after a period of twelve months after the reporting date.
- iii) Climatic conditions will remain the same.
- iv) The fair value per tonne is spread over the crop life from age of one month based on the proportion of cane development costs.

e) Reconciliation of carrying amount of biological assets:

| | 2016 | 2015 |
|--|--------------------|--------------------|
| | KShs | KShs |
| i) Sugar cane plantations | | |
| At the start of the year | 166,930,358 | 153,937,106 |
| Aggregate Gain(Loss) due to changes in fair value (note 4) | <u>10,572,439</u> | <u>12,993,252</u> |
| At the end of the year | <u>177,502,797</u> | <u>166,930,358</u> |
| | 2016 | 2015 |

| | KShs | KShs |
|---|----------------------|----------------------|
| NOTES TO THE FINANCIAL STATEMENTS (continued) | | |
| Apportionment | | |
| Current portion | 140,266,519 | 107,675,956 |
| Non-current portion | <u>37,236,278</u> | <u>59,254,402</u> |
| | <u>177,502,797</u> | <u>166,930,358</u> |
| 21. BIOLOGICAL ASSETS (Continued) | | |
| ii) Livestock | | |
| At start of year | 800,000 | 660,000 |
| Aggregate (loss)/gain due to changes in fair value (note 4) | <u>(165,000)</u> | <u>140,000</u> |
| At end of year | <u>635,000</u> | <u>800,000</u> |
| Total value of biological assets | | |
| Current portion | 140,266,519 | 108,475,956 |
| Non-current portion | <u>37,871,278</u> | <u>59,254,402</u> |
| | <u>178,137,797</u> | <u>167,730,358</u> |
| 22. Loans to Outgrowers | | |
| Co-operative societies | 370,048,620 | 368,188,127 |
| Large and medium scale farmers | 61,058,687 | 62,869,069 |
| Transport and equipment loans | <u>832,872</u> | <u>983,836</u> |
| | 431,940,179 | 432,041,032 |
| Less: impairment | | |
| Co-operative societies | (365,958,108) | (365,958,108) |
| Large and medium scale farmers | (41,236,110) | (41,236,110) |
| Transport and equipment loans | <u>(833,736)</u> | <u>(833,736)</u> |
| | <u>(408,027,954)</u> | <u>(408,027,954)</u> |
| | <u>23,912,225</u> | <u>24,012,978</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. Loans to outgrowers (continued)

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

| 23. Trade and other receivables | 2016 KShs | 2015 KShs |
|--|----------------------|----------------------|
| Trade receivables | 36,625,375 | 40,110,468 |
| Less : Provision for impairment | <u>22,591,029</u> | <u>22,591,029</u> |
| Net trade receivables | <u>14,034,346</u> | <u>17,519,439</u> |
| Other receivables | 92,803,337 | 97,371,297 |
| Less : Provision for impairment | <u>(43,798,468)</u> | <u>(43,798,468)</u> |
| Net other receivables | <u>49,004,869</u> | <u>53,572,829</u> |
| Deposits and prepayment | <u>112,614,398</u> | <u>81,038,287</u> |
| Total trade and other receivables | <u>175,653,613</u> | <u>152,130,555</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.

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

24. Inventories

| | 2016 Shs | 2015 Shs |
|---|---------------------|---------------------|
| Milled sugar | 7,689,586 | 37,803,605 |
| Factory and field stores | 289,153,325 | 304,710,473 |
| Milled sugar-in-process | 23,421,703 | 20,391,060 |
| Unmilled cane | 2,400,000 | - |
| Filling station | 833,187 | 833,187 |
| Molasses | 296,100 | 1,636,098 |
| Molasses in process | 2,607,810 | 2,779,977 |
| Stationery | 1,338,648 | 1,557,111 |
| Medicines | 1,070,139 | 3,957,791 |
| Goods-in-Transit | <u>7,116,363</u> | <u>2,270,100</u> |
| | 335,926,861 | 375,939,402 |
| Less; Impairment for obsolete and slow moving inventories | <u>82,862,847</u> | <u>82,862,847</u> |
| | <u>253,064,014</u> | <u>293,076,555</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Cash and Cash equivalents

| | 2016 Shs | 2015 Shs |
|--------------------------|--------------------|--------------------|
| Cash at bank and in hand | 233,134,081 | 15,173,690 |
| Short-term bank deposits | - | - |
| | <u>233,134,081</u> | <u>15,173,690</u> |

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

| | 2016 Shs | 2015 Shs |
|---------------------------|---------------------|---------------------|
| Cash at bank and in hand | 233,134,081 | 15,173,690 |
| Short-term bank deposits | - | - |
| Bank overdrafts (note 16) | <u>(40,626,990)</u> | <u>(32,997,495)</u> |
| | <u>192,507,091</u> | <u>(17,823,805)</u> |

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

26. Trade and other payables

| | 2016 shs | 2015 Shs |
|---|----------------------|----------------------|
| Staff & Current Deffered Debts with Credit bal. | 46,440,538 | 19,919,637 |
| Trade payables | 213,759,499 | 233,109,676 |
| Cane payables | 362,235,626 | 278,075,327 |
| Value Added Tax | 565,227,155 | 451,459,163 |
| Kenya Sugar Board Levy | 474,109,867 | 417,329,450 |
| Payroll liabilities | 415,271,439 | 329,505,309 |
| Prepaid Sugar Sales | 153,360,450 | 10,165,900 |
| Other payables and accruals | <u>262,753,536</u> | <u>198,769,725</u> |
| | <u>2,493,158,110</u> | <u>1,938,334,187</u> |

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

27. Related party transactions and balances

Kenya Sugar Board loans

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

Directors and Executive staff

During the year Kshs.11.9 Million was incurred on Directors allowances and expenses while Kshs. 16 Million was spent on Heads of Department salaries and allowances.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. Cash (used in) operations

| | 2016 | 2015 |
|---|--------------------|-------------------|
| | Shs | Shs |
| Reconciliation of loss before tax to cash (used in) operations (loss before tax) | (767,454,578) | (640,035,106) |
| Adjustment for: | | |
| Depreciation on property, plant and equipment (note 20) | 143,761,179 | 144,035,588 |
| (Gain)/loss on disposal of property, plant and equipment | - | |
| Net fair value gain on biological assets (note 4) | (10,407,439) | (13,133,252) |
| Interest (income) | (2,828,393) | (2,181,423) |
| Interest expense | 146,118,839 | 135,781,527 |
| Amortisation of government grant | (11,362,316) | (21,362,316) |
| Decrease provision for other accrued liabilities (note 18) | 47,558,352 | 67,712,325 |
| Changes in working capital | | |
| -Inventories | 40,012,541 | 141,253,506 |
| -Trade and other receivables | (23,523,058) | (16,489,015) |
| -Loan to outgrowers | 100,753 | (10,670,689) |
| -Restricted cash and cash equivalents | - | - |
| -Trade and other payables | <u>554,823,923</u> | <u>67,584,905</u> |
| -Cash (used in) operations | 116,799,803 | (147,503,950) |

29. Contingent liabilities

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

30. Commitments

| | 2016 | 2015 |
|---|-------------|-------------|
| | Shs | Shs |
| Capital commitments | | |
| Capital expenditure contracted for at the reporting date is as follows: | | |

Factory and Agriculture plant and machinery

31. Risk management objectives and policies

Financial risk management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

a) Market risk

-Foreign exchange risk

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

-Interest rate risk

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

At 30th June 2016, 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. 11,000,000 (2014: Shs. 11,500,200) arising mainly as a result of higher interest expense on variable borrowings.

-Price risk

The Company realized depressed sugar prices in the year under review due to illegal sugar imports. This affected the revenue generation as sugar prices were prevailing below the cost of production.

b) Credit risk

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

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

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

c) Liquidity risk

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

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

32. Capital management

The company's objectives when managing capital are:

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

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

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

33. Country of incorporation

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

34. Post balance sheet event

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

35. Presentation currency

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