CHEMELIL SUGAR COMPANY LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2007

P.O. Box 177
Muhoroni

REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2007

CONTENTS

COMPANY INFORMATION

DIRECTORS	: Mr. J.K. Rotich	Chairman, appointed on 19 July 2006 (retired on 26 February 2007)
	: Mr. Mukasa Mwambu Muliro	Chairman, appointed on 26 February 2007 (retired on 29 June 2007)
	: Prof. J.O. Nyabundi	Managing Director.
	: Managing Director, Agricultural Development Corporation	
	: Permanent Secretary, Ministry of Agriculture	Alternate, Ms Ann A. Onyango (appointed on 16 January 2007) Mrs. E. M Gatuguta (retired on 16 January 2007)
	: Permanent Secretary, Treasury	Alternate, Mr. P.C. Sigei
	: Development Bank of Kenya	
	: Mr. J.P. Luusa	Retired on 29 June 2007
	: Mr. J.K. Maizs	Retired on 09 October 2007
	: Mr. Robert Iltaramatwa Kochale	Appointed on 29 June 2007
	: Mr. Erick Kirwa Koech	Appointed on 09 October 2007
	: Kenya Shell Ltd	
	: Mrs. Sarah V. Injairu	
	: Mr. J.M. Kogo	
COMPANY SECRETARY	: Peter Kemei : Image Registrars : P.O. Box 72133, 00100 : NAIROBI	
INDEPENDENT AUDITORS	: PKF Kenya : Certified Public Accountants : P.O. Box 187, 40100 : KISUMU On Behalf of: : The Controller and Auditor-General : P.O. Box 30084, 00100 : NAIROBI	
BANKERS	: Kenya Commercial Bank Limited : P.O. Box 17, 40100 : KISUMU : Co-operative Bank of Kenya Limited : P.O. Box 1511, 40100 : KISUMU	
REGISTERED OFFICE	: Chemelil Sugar Company Limited : Awasi-Nandi Hills Road : P.O. Box 177, 40107 : MUHORONI	

CHAIRMAN'S REPORT

It is my pleasure to report on the performance of Chemelil Sugar Company Limited for the year ended 30 June 2007 as follows:

Overview

There was a marked improvement in performance in the year under review. The Company returned to profitability with significant increases in cane ground, sugar produced and turnover. Overall operating environment, particularly the sugar market, remained stable as the Company maintained good stakeholder relationships and sold all the sugar produced at reasonable prices. These achievements were however made amidst challenges brought about by increased costs, especially that of the raw material and fuels, a less than optimum factory performance and the need to service past debt obligations.

Operations

Raw material availability has now stabilized and there was sufficient cane for milling. A total of 676,914 tonnes of cane was supplied to the factory. The Outgrower farmers supplied 614,454 tonnes, representing 91% of total cane supply, for which they earned KShs.1.3 billion (KShs.920 million in 2006). The balance of 62,460 tonnes was supplied from the Nucleus Estate. The Company continued to put emphasis on cane development and a total of 2,883 hectares was planted with cane in both the Nucleus Estate and Outgrowers farms.

All the cane supplied at 676,914 tonnes was ground to produce 54,051 tonnes of sugar. These were an increase of 23% and 22%, respectively, over that of the previous year and were the highest in the last seven years. The sugar quality remained high and the Company retained the Kenya Bureau of Standards (KEBS) Diamond Mark of Quality in mill white sugar and acquired the same for the brown sugar.

Financial Results

The Company recorded a pre-tax profit of KShs.120 million in the year. This was an increase of 200% above the loss recorded in the previous year. The significant increase in profit was attributed mainly to increase in sugar production, better sugar prices and cost saving measures. The cost per ton of sugar produced was reduced despite a 14% increase in the price of Outgrowers cane.

The gross sales turnover increased by 4% from KShs.2.9 billion in the previous year to KShs.3 billion. Inspite of the strained cash flow situation, the Company was able to pay promptly for cane deliveries, invest KShs.73 million on capital assets, repay KShs.76.9 million to the Kenya Sugar Board and reduce the trade creditors level by 26% from KShs.345 million to KShs.255 million.

Future Prospects

The Company is now benefiting from the major cane development and ratoon maintenance efforts which have brought additional 13,300 hectares of land under cane in the Chemelil cane catchment area since July, 2004. The cane development program is still continuing and it is expected that the Company will not experience a cane shortage situation in the near future. However, the impending resurgence of neighbouring sugar factories alongside another newly established mill in the region pose a new challenge to continued cane availability.

The Company has reviewed its strategic plan. The new 5-year (2007/2008 to 2011/2012) plan gives a new strategic direction to the Company with emphasis on increased sugar production, improved operational efficiency, improved financial management, cost reduction and diversification into co-products. Sugar production is expected to reach 141,000 tonnes from 1.4 million tonnes of cane by the end of the 5 years when the factory is expected to crush at the rate of 200 tonnes of cane per hour (TCH) from the current capacity of 135 TCH with an improved efficiency. This will further result into an increase in the quantity of the by-products for diversification and creation of new product lines for improved profitability.

CHAIRMAN'S REPORT (CONTINUED)

With the improved cane situation, supply to the factory in the next financial year is planned to increase to 780,000 tonnes and produce 69,040 tonnes of sugar. This level of production, coupled with cost savings and planned efficiency improvements, will ensure increased profitability despite the expected major increase in cost.

To further remain competitive and profitable in this challenging business environment the Company is planning to rehabilitate the factory and expand it to realize the objectives of the new strategic plan. Meanwhile, to take full advantage of the planned expansion a commercial power co-generation project has been initiated in partnership with Kenya Electricity Generating Company Limited (KenGen). When completed, the Company will be able to sell significant quantity of power to the national grid. Other diversification projects are also being considered. It is expected that the COMESA moratorium that is set to expire by February, 2008 will be extended as the Company implements these improvements.

Privatisation

The Company's privatization exercise is still on course and the way forward is awaited from the Government.

Appreciation

On behalf of the Board of Directors, I wish to express my gratitude to the cane farmers who have now increased their cane supply to sustain the Company. I also wish to thank our materials suppliers, cane transporters, cane development contractors, the Kenya Sugar Board 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 smooth running of the Company despite some very serious challenges. As we move into the fourth cycle of the Performance Contracting process, the Board is hopeful that we shall all improve our performance for a better future.

....

CHAIRMAN

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 30 June 2007 which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activity of the company is that of manufacture of sugar.

RESULTS FOR THE YEAR

The results for the year ended 30 June 2007 are set out on page 8 and the appropriations therefrom in the statement of changes in equity on page 10.

DIVIDENDS

The directors propose a final dividend of Shs. 0.50 per share (2006: Shs. Nil per share) amounting to a total of Shs. 5,289,791 (2006: Shs. Nil).

DIRECTORS

The names of directors who held office during the year and at the date of this report are shown on page 1. In Accordance with the company's Articles of Association, no director is due for retirement by rotation.

AUDITORS

The controller and Auditor-General is responsible for the statutory audit of the company's books of account in accordance with part III of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Controller and Auditor-General to appoint other auditors to carry out the audit on her behalf.

Accordingly, PKF Kenya were appointed to carry out the audit on behalf of the Controller and Auditor-General for the year ended 30 June 2007

BY ORDER OF THE BOARD

PETER KEMEI
COMPANY SECRETARY

30 [illegible] 2007

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 that the company maintains proper accounting records which disclose with reasonable accuracy the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates consistent with previous years, and in conformity with the International Financial Reporting Standards and the requirements of the Companies Act (Cap.486). The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 30 June 2007 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

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

Approved by the board of directors on 30th October 2007 and signed on its behalf by:

DIRECTOR **DIRECTOR**

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: cag@kenyaweb.com

P.O Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF CHEMELIL SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2007

The financial statements of Chemelil Sugar Company Limited set out on pages 8 to 25 which comprise the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended together with a summary of significant accounting policies and other explanatory notes have been audited on my behalf by PKF Kenya, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

The Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company and of its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

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

Opinion

In my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the Company as at 30 June 2007 and of its profit and cash flows for the year then ended in accordance with the International Financial Reporting Standards and Kenya Companies Act, Cap 486.

Emphasis of Matter

Without qualifying my opinion I draw attention to note 1 to these financial statements which indicates that as at 30 June 2007, the Company's current liabilities exceeded current assets by Kshs.208,055,996.00 (2006 – Kshs.386,937,990.00). The directors are however of the opinion that this is a temporary phenomenon that will not impair the operations of the company in both the short term and the medium term. The financial statements have, therefore, been prepared on a going concern basis which assumes continued financial support from related parties.

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P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

06 December 2007

PROFIT AND LOSS ACCOUNT

	Notes	2007 Shs	2006 Shs
Sales	2.	2,421,913,257	2,433,923,703
Cost of sales	3.	(2,031,613,998)	(2,323,539,440)
Gross profit		390,299,259	110,384,263
Fair value gain in biological assets	4.	23,779,264	15,052,005
Other operating income	5.	11,045,917	21,791,059
Administrative expenses	6.	(288,442,337)	(258,193,518)
Other charges and expenses	7.	(38,305,165)	(12,123,986)
Operating profit/(loss)		98,376,938	(123,090,177)
Net finance income	8.	21,559,818	2,719,965
Profit/(loss) before tax		119,936,756	(120,370,212)
Tax	12.	(33,976,250)	11,493,381
Net profit/(loss)		85,960,506	(108,876,831)
Proposed final dividend for the year	13.	5,289,791	-
Earnings per share	14.	8.13	(10.29)

The accounting policies on pages 12 to 14 and the notes on pages 15 to 25 form an integral part of the financial statements.

Report of the Controller and Auditor-General - pages 6 - 7

BALANCE SHEET

	Notes	2007 Shs	2006 Shs
CAPITAL EMPLOYED			
Share capital	15.	211,591,620	211,591,620
Revaluation reserve	16.	747,939,624	795,761,870
Retained earnings		241,458,513	112,965,552
Proposed dividend	13.	5,289,791	-
Shareholders' funds		1,206,279,548	1,120,319,042
Non-current liabilities			
Borrowings	17.	237,061,485	393,696,098
Deferred tax	18.	299,581,805	265,605,555
		536,643,290	659,301,653
		1,742,922,838	1,779,620,695
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	19.	1,825,612,360	1,903,263,898
Biological assets	20.	108,169,476	88,298,497
Loan to outgrowers	21.	17,196,998	174,996,290
		1,950,978,834	2,166,558,685
Current assets			
Inventories	22.	368,402,909	301,854,747
Biological assets	20.	107,934,811	104,026,526
Loan to outgrowers	21.	273,206,311	100,176,863
Trade and other receivables	23.	108,749,546	52,091,229
Tax recoverable	12.	14,650,810	14,288,874
Cash and cash equivalents	24.	57,328,043	33,540,069
		930,272,430	605,978,308
Current liabilities			
Trade and other payables	25.	715,470,059	820,452,866
Borrowings	17.	413,656,546	165,671,607
Dividends payable		4,409,996	4,409,996
Directors' current account		4,791,825	2,381,829
		1,138,328,426	992,916,298
Net current (liabilities)		(208,055,996)	(386,937,990)
		1,747,332,834	1,779,620,695

The financial statements on pages 8 to 25 were approved for issue by the Board of Directors on 30th October 2007 and were signed on its behalf by:

_______________ CHAIRMAN _______________ MANAGING DIRECTOR

The accounting policies on pages 12 to 14 and the notes on pages 15 to 25 form an integral part of the financial statements.

Report of the Controller and Auditor-General - pages 6 - 7

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs	Revaluation reserve Shs	Retained earnings Shs	Proposed dividends Shs	Total Shs
Year ended 30 June 2006						
At start of year	15.	211,591,620	843,686,486	173,917,767	-	1,229,195,873
Transfer of excess depreciation	16.	-	(47,822,246)	47,822,246	-	-
Excess depreciation adjustment			(102,370)	102,370		-
Net loss		-	-	(108,876,831)	-	(108,876,831)
At end of year		211,591,620	795,761,870	112,965,552	-	1,120,319,042
Year ended 30 June 2007						
At start of the year	15.	211,591,620	795,761,870	112,965,552	-	1,120,319,042
Transfer of excess depreciation	16.	-	(47,822,246)	47,822,246	-	-
Net profit		-	-	85,960,506	-	85,960,506
Dividends						
- Final for 2007 (proposed)	13.		-	(5,289,791)	5,289,791	-
At end of year		211,591,620	747,939,624	241,458,513	5,289,791	1,206,279,548

The accounting policies on pages 12 to 14 and the notes on pages 15 to 25 form an integral part of the financial statements.

CASH FLOW STATEMENT

	Notes	2007 Shs	2006 Shs
Operating activities			
Cash (used in)/generated from operation	26.	(36,963,031)	151,084,083
Interest paid		(13,975,056)	(18,075,138)
Interest received		48,808,325	42,173,171
Tax paid		(361,936)	(227,516)
Net cash (used in)/generated from operating activities		(2,491,698)	174,954,600
Investing activities			
Purchase of property, plant and equipment	19.	(60,707,199)	(142,808,491)
Adjustments to property, plant and equipment		6,500,000	
Proceeds from sale of motor vehicles		-	145,500
Net cash (used in) investing activities		(54,207,199)	(142,662,991)
Financing activities			
Proceeds from KSB borrowings		126,000,000	-
Repayment of KSB borrowings		(62,964,061)	-
Directors' Account		2,409,996	269,996
Net cash from finance activities		65,445,935	269,996
Increase in cash and cash equivalents		8,747,038	32,561,605
Movement in cash and cash equivalents			
At start of year	24	(39,331,878)	(71,893,483)
Increase in cash and cash equivalents		8,747,038	32,561,605
At end of year	24	(30,584,840)	(39,331,878)

The accounting policies on pages 12 to 14 and the notes on pages 15 to 25 form an integral part of the financial statements.

Report of the Controller and Auditor-General - pages 6 - 7

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) **Basis of preparation**

The financial statements are prepared under the historical cost convention as modified by the carrying of biological assets and revaluation of property, plant and equipment at fair value and are in compliance with International Financial Reporting Standards (IFRS).

b) **Property, plant and equipment**

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Revalued items of property, plant and equipment are subsequently shown at revalued amounts, based on valuations by external independent valuers, less accumulated depreciation.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) 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 balance basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate %
Buildings	2.50%
Factory plant and machinery	5.00%
Lorries and Landrovers	16.67%
Other Vehicles	20.00%
Wheeled tractors and cane loaders	12.25%
Crawling tractors	10.00%
Trailers and caterpillar implements	8.33%
Agricultural implements	10.00%
Office machines, fittings and equipment	20.00%
Household equipment	20.00%
Roads	12.25%
Office furniture	10.00%
Irrigation project	6.67%
Computer Hardware	25.00%

The assets residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

c) **Impairment of non-financial assets**

The company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If such indicatiön exist, the company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the profit and loss account.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) **Biological assets and agricultural produce**

Biological assets are measured at fair value less estimated point of sale costs. Any changes to the fair values are recognised in the profit and loss account in the year in which they arise. The fair value of biological assets is determined based on market prices. Where meaningful market determined prices do not exist to assess the fair value of the company's biological assets, the fair value is determined based on the net present value of expected future cash flows, discounted at appropriate pre-tax rate. All costs incurred relating to biological assets are recognised in the profit and loss account in the period in which they are incurred.

e) **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost of bagged sugar comprises expenditure incurred in the normal course of business, including direct material costs, labour and production overheads. Cost of other inventories is determined using the weighted average cost method. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the cost of the realisation and, where appropriate, the cost of conversion from its existing state to a realisable condition. Provision is made for obsolete, slow moving and defective stocks.

f) **Trade receivables**

Trade receivables are carried at original amortised amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year-end. Bad debts are written off when all reasonable steps to recover them have been taken without success.

g) **Loans to outgrowers**

Loans to outgrowers are recognised when farm inputs and services are provided to farmers. Specific provision is made against loans where all reasonable steps to recover them have been taken without success.

h) **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities

i) **Borrowings**

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Any difference between the proceeds received (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowing as an interest expense.

Borrowings are classified as current liabilities unless the company has unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

j) **Borrowings costs**

Borrowing costs that are incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

k) **Research and Development**

Research and Development expenditure is charged to profit and loss account in the year in which it is incurred

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) **Taxation**

Current tax

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

Deferred tax

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

m) **Retirement benefit obligations**

The company operates a defined benefit pension scheme for non-unionisable employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the company and the employees. Benefits are paid to retiring staff in accordance to the scheme rules. The cost of providing benefits is determined using the projected unit method with actuarial valuation being carried out every three years. Under this method, the cost of providing pension is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of actuaries. The pension obligation is measured at the present value of the estimated future cashflows. Actuarial gains and losses are recognised over the average remaining service lives of employees.

The company also contributes to a statutory defined contribution pension scheme , the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs. 200 per employee per month.

The company's contributions to the above schemes are charged to the profit and loss account in the year to which they relate.

n) **Employee Benefits**

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

o) **Revenue recognition**

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

i) Sales are recognised upon delivery of products and customer acceptance, net of Sugar Development Levy, VAT and discount.
ii) Interest is accounted for in the period in which it is earned.

p) **Dividends**

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

q) **Comparatives**

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

EXPLANATORY NOTES

1. Basis of preparation of financial statements

At the balance sheet date the company's current liabilities exceeded its current assets by Shs. 208,055,996 (2006: 386,937,990). The financial statements have been prepared on a going concern basis which assumes that the company will be in operational existence for the foreseeable future and all the lenders continuing their support by providing adequate funding. The financial statements do not include any adjustment that should result from a failure to obtain such continuing support.

2. Sales

	2007 Shs	2006 Shs
Sale of milled local sugar	2,957,779,045	2,163,581,701
Sale of imported sugar	-	681,432,186
Sale of molasses	38,914,600	35,880,897
Gross sales	2,996,693,645	2,880,894,784
Less:		
Value Added Tax	(407,972,215)	(324,960,084)
Sugar Development Levy	(166,808,173)	(122,010,997)
Net sales	2,421,913,257	2,433,923,703

3. Cost of sales

	2007 Shs	2006 Shs
Cost of cane	1,449,157,081	1,093,163,097
Cost of imported sugar	-	637,154,315
Factory costs	590,828,933	589,181,208
(Increase)/decrease in closing inventory of sugar	(8,372,015)	4,040,820
	2,031,613,998	2,323,539,440

4. Fair value gain in biological assets (Note 20)

	2007 Shs	2006 Shs
Sugar plantation	23,786,764	15,144,505
Livestock	(7,500)	(92,500)
	23,779,264	15,052,005

5. Other operating income

	2007 Shs	2006 Shs
Miscellaneous income	7,369,384	19,640,746
P.I stock adjustment	3,676,533	2,150,313
	11,045,917	21,791,059

6. Administrative expenses

	2007 Shs	2006 Shs
Finance and administration department	115,255,793	110,508,305
Human resource department	173,186,544	147,685,213
Total administrative expenses	288,442,337	258,193,518

EXPLANATORY NOTES (CONTINUED)

	2007 Shs	2006 Shs
7. Other charges and expenses		
Provision for bad and doubtful debts		
- Loans to outgrowers (Societies)	32,958,988	12,123,986
Provision for obsolete and slow moving stock	1,008,445	-
Amortisation of accelarated pension contribution	4,337,732	-
	38,305,165	12,123,986
8. Net finance income		
Bank overdraft interest	6,340,110	18,075,138
Interest income	(48,808,325)	(42,173,171)
Loan interest	20,908,397	21,378,068
Net interest (income)	(21,559,818)	(2,719,965)
9. Operating profit/(loss)		
The following items have been charged in arriving at operating profit/(loss):		
Depreciation on property, plant and equipment (Note 19)	131,858,737	131,531,482
Directors' emoluments		
Fees	15,101,279	10,223,476
Others	8,936,594	10,830,010
Auditors' remuneration	1,200,000	1,500,000
Interest payable	27,248,507	39,453,206
Staff costs (Note 10)	415,860,837	384,444,390
10. Staff costs		
Salaries and wages	397,057,336	366,818,398
Leave pay/allowances	4,175,191	4,101,502
Pension fund contribution-Defined benefits scheme	12,088,702	10,927,759
-National Social Security Fund	2,539,608	2,596,731
	415,860,837	384,444,390
11. Finance costs		
Interest expense		
- bank loan	20,908,397	21,378,068
- bank interest	6,340,110	18,075,138
	27,248,507	39,453,206

EXPLANATORY NOTES (CONTINUED)

12. **Taxation**

	2007 Shs	2006 Shs
Balance sheet		
Balance brought forward	14,288,874	14,061,358
Paid during the year	361,936	227,516
Tax recoverable	14,650,810	14,288,874
Profit and loss account		
Deferred tax charge/(credit)(Note 18)	33,976,250	(11,493,381)
	33,976,250	(11,493,381)

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

	2007 Shs	2006 Shs
Profit before tax	119,936,756	(120,370,212)
Tax calculated at a tax rate of 30%	35,981,027	(36,111,064)
Tax effect of:		
Expenses not deductible for tax purposes	288,486	21,305,454
Tax losses brought forward	-	(114,983,172)
Tax losses carried forward	-	141,282,163
(Over)provision of deferrred tax in previous years	(2,293,263)	-
Tax charge	33,976,250	11,493,381

No corporation tax has been recognised in this financial year due to accummulated tax losses in the previous year.

13. **Dividends**

The directors propose a final dividend of Shs. 0.50 per share (2006: Shs. Nil per share) amounting to a total of Shs. 5,289,791 (2006: Shs. Nil).

In accordance with the Companies Act(Cap 486), these financial statements reflect proposed dividend which is accounted for in the shareholders' funds as an appropriation of retained profits in the year ended 30 June 2007.

14. **Earnings per share**

Earnings per share is calculated by dividing the net profit/(loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Net profit attributable to shareholders	85,960,506	(108,876,831)
Weighted average number of shares	10,579,581	10,579,581
Earnings per share	8.13	(10.29)

15. **Share capital**

	2007	2006
Authorised, issued and fully paid		
10,579,581 (2006: 10,579,581) ordinary shares of Shs. 20 each	211,591,620	211,591,620

EXPLANATORY NOTES (CONTINUED)

	2007 Shs	2006 Shs
16. **Revaluation reserve**		
Property, plant and equipment	747,939,624	795,761,870

The movements in reserves were as follows:

Property, plant and equipment

	2007 Shs	2006 Shs
At start of year	795,761,870	843,686,486
Transfer of excess depreciation	(47,822,246)	(47,822,246)
Excess depreciation adjustment	-	(102,370)
At end of year	747,939,624	795,761,870

17. **Borrowings**

The borrowings are made up as follows:

	2007 Shs	2006 Shs
Non-current		
Kenya Sugar Board Loan	237,061,485	393,696,098
	237,061,485	393,696,098
Current		
Kenya Sugar Board Loan	325,743,663	92,799,660
Bank overdraft (Note 24)	87,912,883	72,871,947
	413,656,546	165,671,607
Total borrowings	650,718,031	559,367,705

The loans were received from the Kenya Sugar Board (KSB) under the Sugar Development Fund (SDF) program. They are in respect of cane development, irrigation project, nucleus estate roads development, purchase of agricultural equipment, factory rehabilitation and payment of farmers' arrears. While the old unsecured loans are now attracting interest at 5% p.a, the new loans are partially secured and are accruing interest at annual rates varying between 3% and 5%.

Bank overdraft is secured as follows:

a) A debenture for Shs.60 million over the assets of the company.
b) Legal charge over L.R. 1611/4 Kisumu
c) Legal charge over L.R. 11840 Kisumu
d) Legal charge over L.R. 1612/4 Kisumu
e) Lien over funds held in fixed deposits.

	2007 Shs	2006 Shs
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	138,096,474	295,908,064
Between 2 and 5 years	98,965,011	97,788,034
	237,061,485	393,696,098

Weighted average effective interest rates at the year end were:	%	%
Kenya Sugar Board Loan	5	5
Bank overdraft	14	14

18. **Deferred tax**

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2006:30%). The movement on the deferred tax account is as follows:

	2007 Shs	2006 Shs
At start of year	265,605,555	277,098,936
Profit and loss account charge/(credit)	33,976,250	(11,493,381)
At end of year	299,581,805	265,605,555

Deferred tax (assets) and liabilities, deferred tax charge in the profit and loss account are attributable to the following items:

	At 1st July 2006 Shs	(Credit) to P/L Shs	At 30th June 2007 Shs
Deferred tax liabilities			
Property, plant and equipment			
Historical cost	355,323,805	(18,481,890)	336,841,915
Other temporary differences	50,753,335	6,090,610	56,843,945
	406,077,140	(12,391,280)	393,685,860
Deferred tax assets			
Tax loss carried forward	(140,471,585)	46,367,530	(94,104,055)
	(140,471,585)	46,367,530	(94,104,055)
Net deferred tax liability	265,605,555	33,976,250	299,581,805

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

EXPLANATORY NOTES (CONTINUED)

19. **Property, plant and equipment**

	Freehold land and buildings Shs	Plant equipment and machinery Shs	Motor vehicles and other equipment Shs	Capital Work In Progress Shs	Total Shs
Year ended 30 June 2007					
At start of year	870,026,260	2,031,209,339	149,319,557	38,434,900	3,088,990,056
Additions	-	57,734,515	2,972,684	-	60,707,199
Adjustment	-	(6,500,000)	-	-	(6,500,000)
Transfer from capital WIP	-	25,879,052	-	(25,879,052)	-
	870,026,260	2,108,322,906	152,292,241	12,555,848	3,143,197,255
Comprising					
Cost	177,011,260	1,052,415,735	102,481,739	12,555,848	1,344,464,582
Valuation	693,015,000	1,055,907,171	49,810,502	-	1,798,732,673
	870,026,260	2,108,322,906	152,292,241	12,555,848	3,143,197,255
Depreciation					
At start of year	134,454,880	915,418,306	135,852,972	-	1,185,726,158
Charge for the year	15,399,745	110,916,561	5,542,431	-	131,858,737
At end of year	149,854,625	1,026,334,867	141,395,403	-	1,317,584,895
Net book value					
At 30 June 2007	720,171,635	1,081,988,039	10,896,838	12,555,848	1,825,612,360
Year ended 30 June 2006					
Cost or valuation					
At start of year	866,840,223	1,901,893,763	148,432,895	38,434,900	2,955,601,781
Additions	3,186,037	129,315,576	2,036,662	-	134,538,275
Disposal	-	-	(1,150,000)	-	(1,150,000)
	870,026,260	2,031,209,339	149,319,557	38,434,900	3,088,990,056
Comprising					
Cost	177,011,260	1,052,415,735	102,481,739	-	1,331,908,734
Valuation	693,015,000	978,793,604	46,837,818	-	1,718,646,422
	870,026,260	2,031,209,339	149,319,557	-	3,050,555,156
Depreciation					
At start of year	119,055,134	807,748,656	128,540,886	-	1,055,344,676
Charge for the year	15,399,746	107,669,650	8,462,086	-	131,531,482
On disposal	-	-	(1,150,000)	-	(1,150,000)
At end of year	134,454,880	915,418,306	135,852,972	-	1,185,726,158
Net book value					
At 30 June 2006	735,571,380	1,115,791,033	13,466,585	38,434,900	1,903,263,898

Property, plant and equipment were professionally valued in 1996 by Tysons Limited, Professional Valuers, on the basis of depreciated replacement cost. The book values of the properties were adjusted to the revaluation and the resultant surplus was credited to the revaluation reserve in shareholders equity.

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

20. **Biological assets**

	2007 Shs	2006 Shs
a) **Bearer assets:**		
Non-current		
Plantations - Sugar cane	215,709,287	191,922,523
Consumable assets		
Livestock	395,000	402,500
Total biological assets	216,104,287	192,325,023

b) **Details of biological assets:**

I **Milk cattle**

Held for meat and milk purposes

Quantities at year-end in number of animals		
Mature	12	12
Immature	1	2
Total beef and milk cattle	13	14

II **Sugarcane**

Held for sugarcane harvesting

Quantities at year-end in number of acres under sugar cane plantation:		
Plant	380	217
Ratoon	1,632	1,632
	2,012	1,849

c) **Determining fair value of agricultural produce:**

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

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

I The market price of cane will not significantly change from Kshs. 2,200 per tonne (2006:1,978)

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 balance sheet date.

EXPLANATORY NOTES (CONTINUED)

20. **Biological assets (continued)**

d) **Reconciliation of carrying amount of biological assets:**

I Sugar cane plantations	**2007 Shs**	**2006 Shs**
- Sugar plantation		
Carrying amount at 1st July	191,922,523	176,778,018
Changes due to:		
New cane plantation	42,173,314	55,352,959
Cane harvested	(51,918,362)	(51,774,490)
Gain/(loss) in fair values:		
Due to physical change	11,764,784	6,908,664
Price difference	21,767,028	4,657,372
Aggregate gain due to changes in fair value	23,786,764	15,144,505
Carrying amount at 30 June	215,709,287	191,922,523
Apportionment		
Current portion	107,934,811	103,624,026
None-current portion	107,774,476	88,298,497
	215,709,287	191,922,523
II Livestock		
- As at 1st July	402,500	495,000
Decreases due to		
Sales	(25,000)	-
Deaths	(117,500)	-
Increase due to		
Births	12,500	-
Purchases	62,500	-
Due to physical change	60,000	(92,500)
Aggregate gain due to changes in fair value	(7,500)	(92,500)
Carrying amount at 30 June	395,000	402,500
Total value of biological assets	216,104,287	192,325,023
Current portion	107,934,811	104,026,526
None-current portion	108,169,476	88,298,497
	216,104,287	192,325,023

21. **Loans to outgrowers**

Co-operative Socities	329,095,843	281,853,698
Large and medium scale farmers	61,893,892	60,946,893
Transport and equipment loans	833,736	833,736
	391,823,471	343,634,327
Less: Provision for bad and doubtful debts	(101,420,162)	(68,461,174)
	290,403,309	275,173,153
Apportionment		
Current portion	273,206,311	100,176,863
None-current portion	17,196,998	174,996,290
	290,403,309	275,173,153

EXPLANATORY NOTES (CONTINUED)

	2007 Shs	2006 Shs
22. Inventories		
Milled sugar	9,060,877	688,862
Factory and field stores	338,883,165	305,461,400
Milled sugar-in-process	13,134,251	10,205,428
Filling station	1,849,358	1,014,750
Molasses	276,000	190,356
Stationary	1,933,168	1,810,942
Medicines	1,622,687	977,911
Goods-In-Transit	37,483,058	16,354,104
	404,242,564	336,703,753
Less: Provision for obsolete stock	(35,839,655)	(34,849,006)
	368,402,909	301,854,747

Goods in transit is in respect of importation of various spare parts for the manufacturing plant.

23. Trade and other receivables

Trade receivables	28,231,146	28,304,249
Deposits and prepayments	29,013,507	6,923,167
Other receivables	83,932,589	49,558,964
	141,177,242	84,786,380
Less: Provision for bad and doubtful debts	(32,427,696)	(32,695,151)
	108,749,546	52,091,229

24. Cash and cash equivalents

Cash at bank and in hand	26,410,070	11,040,219
Short term bank deposits	30,917,973	22,499,850
	57,328,043	33,540,069

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

Cash at bank and in hand	26,410,070	11,040,219
Short term bank deposits	30,917,973	22,499,850
Bank overdraft (Note 17)	(87,912,883)	(72,871,947)
	(30,584,840)	(39,331,878)

25. Trade and other payables

Cane payables	163,090,132	205,769,245
Trade payables	255,202,916	344,711,010
Other payables and accruals	297,177,011	269,972,611
	715,470,059	820,452,866

EXPLANATORY NOTES (CONTINUED)

26. Cash (used in) / generated from operations

	2007 Shs	2006 Shs
Reconciliation of profit/(loss) before tax to cash (used in)/generated from operations		
Profit/(loss) before tax	119,936,756	(120,370,212)
Adjustments for:		
Depreciation on property, plant and equipment (Note 19)	131,858,737	131,531,482
Net fair value (gain)on biological assets (Note 4)	(23,779,264)	(15,052,005)
Profit on disposal of property, plant and equipment	-	(145,500)
Interest income	(48,808,325)	(42,173,171)
Interest expense (Note 11)	27,248,507	39,453,206
Changes in working capital		
Inventories	(66,548,162)	38,728,380
Trade and other receivables	(56,658,317)	47,016,655
Loan to outgrowers	(15,230,156)	(50,051,475)
Trade and other payables	(104,982,807)	122,146,723
Cash (used in)/generated from operations	(36,963,031)	151,084,083

27. Contingent liabilities

a) In the year 2002, the company was issued with an additional VAT assessment representing unpaid tax and penalties amounting to Kshs.27,894,179. Tax not in dispute has since been expensed and paid. The balance of Ksh.8,792,427 in respect of penalties has not been accrued in the financial statements as the company is still negotiating with the tax authorities. In the opinion of the directors, there is a possibility of waiver of the amount by the tax authorities.

b) As at 30 June 2007, the company was a defendant in various litigations and claims amounting to Kshs.8,000,000 (2006:Kshs.6,392,536) which arose in the ordinary course of the business. No provision has been made in the financial statements, as the directors believe, based on the information currently available, that the ultimate resolution of these legal proceedings would not likely have a material effect on the operations of the company.

c) The company operates a defined benefits pension scheme for its non-unionisable employees. The scheme is independently managed and is funded both by the company and its employees. The pension plan assets were last valued by Alexander Forbes Financial Services (East Africa) Limited, consultants and actuaries, as at 30 June 2007 The result of the valuation confirmed that the level of funding of the scheme is 93.9% which is above the minimum requirement by the Retirement Benefits Regulations of 80%. However, there is a past service actuarial deficit of Kshs.8.764 million as shown below:

	2007 Shs '000'	2006 Shs '000'
Past services accrued liabilities	142,582	115,275
Fair value of scheme assets	(133,818)	(97,390)
Past services pension deficit	8,764	17,885

From July 2007 the company changed its pension policy from that of defined benefit to defined contribution scheme for its employees. The company had in the past accelarated the contribution to the scheme to eliminate the past acturial valuation deficit resulting into a prepayment of Kshs. 21 million. The prepayment is now being amortised through the profit and loss account over a period of five years.

	2007 Shs	2006 Shs

28. **Commitments**

Capital commitments

Capital expenditure contracted for at the balance sheet date is as follows:

	2007 Shs	2006 Shs
Factory and Agricultural plant and machinery	57,769,843	14,802,247

29. **Currency risk**

The company operates wholly within Kenya and its assets and liabilities are reported in the local currency. Even though it maintains trade links with entities outside Kenya, it held no sigificant foreign currency exposure as at 30 June 2007.

30. **Country of Incorporation**

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

31. **Currency**

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