CHEMELIL SUGAR COMPANY LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2006

P.O BOX 177
MUHORONI
KENYA

CHEMELIL SUGAR COMPANY LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

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CHEMELIL SUGAR COMPANY LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2006

PRINCIPAL PLACE OF BUSINESS
Chemelil Sugar Company Limited
Awasi-Nandi Hills Road
P. O. Box 177
40107 MUHORONI

REGISTERED OFFICE
Chemelil Sugar Company Limited
Awasi-Nandi Hills Road
P. O. Box 177
40107 MUHORONI

BANKERS
Kenya Commercial Bank Limited
P. O. Box 17
40100 KISUMU

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

SECRETARY
Peter Kemei
Image Registrars
P O Box 72133
00100 NAIROBI

AUDITOR
Ernst & Young
Kenya Re-Towers, Upper hill
P.O Box 44286
00100 NAIROBI

On Behalf of:
P. N. Komora
Controller and Auditor-General
Kencom House
P. O. Box 30084
00100 NAIROBI

CHEMELIL SUGAR COMPANY LIMITED
REPORT OF THE CHAIRMAN
FOR THE YEAR ENDED 30 JUNE 2006

It is my pleasure once again to report on the performance of Chemelil Sugar Company Limited for the year ended 30 June 2006 as follows:

Overview

Cane availability markedly improved as the Company started to benefit from the major cane development and ratoon maintenance efforts of the previous years. In addition, the sugar market remained stable throughout the year, thanks to the Government's efforts in controlling sugar importation. However, these positive developments did not translate into an overall improved performance in the year as the Company's operating environment remained quite challenging leading to low achievement on most of the major parameters. The overall results decreased to a loss of Kshs. 120.4 million. In trying to cope with the challenges, the cashflow situation remained tight throughout the year but payments to farmers was given high priority and so was the cane development program.

Financial Results

While the turnover increased by 14.1% from Kshs. 2.1 billion to Kshs.2.4 billion mainly as a result of the improved sugar prices, the overall financial performance reduced in the year under review. The net result was a pre tax loss of Kshs 120.4 million down from a profit of Kshs. 58.3 million in the previous year. This reduction is attributed mainly to the effects of the recent severe drought, major breakdowns of key units in the factory and the increase in production costs as a result of the increased fuel price and the said breakdowns. Inspite of the above and the strained cashflow situation, the Company paid promptly for the cane deliveries and continued to invest in cane development and capital items for future sustainability.

Operations

The Company experienced cane shortage in the first quarter of the year. Thereafter, cane availability improved but supply was made difficult as a result of the breakdowns in the factory. A total of 551,161 tonnes of cane was supplied in the year, an increase of 5.7% over that of the previous year's supply of 521,430 tonnes. The Nucleus Estate supplied 70,903 (78,904 tonnes in 2005) of cane, representing 13% of the total supply while the farmers supplied 480,258 tonnes (87%) of cane amounting to KShs [illegible]20 million.

As a result of the cane shortage in the first quarter and the effect of the major breakdown in pre-mills and the powerhouse turbines, the factory operated below capacity and with low sugar recovery in the year. The breakdowns reduced the factory's capacity to take in cane thus loosing the opportunity created by increased cane availability as the desired permanent solutions needed long lead-times to implement. In addition to the breakdowns, the Company was also hard hit by the effects of the recent long period of severe drought, which manifested itself in terms of poor quality cane arising from accidental fires and harvesting of relatively dry cane.

As a consequence of the breakdowns and the drought, the Company experienced low production and high repair costs. Sugar production at 44,145 tonnes (2005 - 43,536 tonnes) was only 1.4% higher than that of the previous year. The TC/TS ratio at 12.49 remained unfavourable.

The sugar market situation remained favourable and the company realized higher sugar prices than in the previous year. Demand for sugar remained high and all the sugar produced in the year was sold.

Future Prospects

The Company has started to benefit from the major cane development and ratoon maintenance efforts of the previous two years. Additional 10,400 hectares of land has been brought under cane in the Chemelil cane catchment area in the two years. To ensure future sustainability in cane supply, the current cane development programme is set to continue into the next financial year and a further 5,000 hectares is targeted.

The stop-gap measures which were put in the factory following the major breakdowns are working well and production has now stabilized. The desired permanent solutions are still being persued and will be put in place in the course of the year. Meanwhile, with the improved cane availability, supply will increase in the next financial year and the factory is budgeted to produce 78,000 tonnes of sugar from 834,000 tonnes of cane. This level of production, coupled with continued cost savings and the planned efficiency improvements, will ensure increased profitability despite the recent 2.5% increase in the price of cane and the expected increments in production costs as a result of the high fuel costs. The situation is expected to gradually change for the better as the company continues to increase its production levels.

Focus will be maintained on achieving the objectives of the current five-year Strategic Plan (2004/2005 to 2008/2009). The plan, which aims to increase sugar production to 126,316 tonnes by increasing the factory crushing capacity from the present level of 135TCH to 175TCH by the year 2008, while at the same time improving on efficiency and taking full advantage of the increased quantity of the by-products to diversify and create new product lines for increased profitability, will be reviewed in the course of the next financial year with a goal of fast tracking the Factory Expansion and Commercial Power Co-Generation Projects.

Privatisation

As stated previously, the Company's privatisation 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 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, 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 smooth running of the Company despite the serious challenges of the last one year. As we move into the third cycle of the performance contracting process, the Board is hopeful that we shall all improve our performance for a better future.

....

J K ROTICH
CHAIRMAN

CHEMELIL SUGAR COMPANY LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2006

The directors submit their report and the audited financial statements for the year ended 30 June 2006 which show the state of the company's affairs.

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

2. RESULTS
The results for the year are set out on page 8.

3. DIVIDENDS
The directors do not recommend the payment of a dividend.

4. RESERVES
The reserves of the company are set out on page 16, note 10.

5. DIRECTORS
The directors who served during the year and to the date of this report were:-

Mr. J. K. Rotich	: Chairman, retired on 18 June 2006 and re-appointed on 19 July 2006
Prof. J.O. Nyabundi	: Managing Director, retired on 17 June 2006 and re-appointed on 19 June 2006
Managing Director, Agricultural Development Corporation	
Mr. S. F. Mbeo Onganyo, HSC	: Retired on 18 June 2006
Permanent Secretary, Ministry of Agriculture	: Alternate, Mrs. E. M. Gatuguta (appointed on 14 October 2005), Mr. N. Muturi (retired on 14 October 2005)
Permanent Secretary, Treasury	: Alternate, Mr.P.C.Sigei
Development Bank of Kenya	: Retired on 14 June 2006
Mr. J. P. Luusa	
Mr. J. K. Maizs	
Mr. I. N. Jami	: Retired on 14 June 2006
Kenya Shell Ltd	: Retired on 14 June 2006
Ms Sarah V. Injairu	: Appointed on 19 June 2006
Mr. J. M. Kogo	: Appointed on 19 June 2006

6. 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, Ernst & Young were appointed to carry out the audit for the year ended 30 June 2006.

By Order of the Board

Peter Kemei
Company Secretary
22/09/06 2006

CHEMELIL SUGAR COMPANY LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year 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 its operating results for that year. It also requires the directors to ensure the company keeps 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 judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. 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. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

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.

....
Director

....
Director

22/09/2006
....

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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 2006

The financial statements on pages 7 to 19 for the year ended 30 June 2006 which have been prepared on the basis of accounting policies set out on pages 11 to 12 have been audited on my behalf by the 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 financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

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. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit has been conducted in accordance with International Standards on Auditing. Those standards require that the audit be planned and performed to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination on a test basis of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of accounting policies used and significant estimates made by the directors as well as an evaluation of the overall financial statements presentation. I believe that the audit provides a reasonable basis for my opinion.

Opinion

In my opinion, proper books of account have been kept and the financial statements, give a true and fair view of the state of affairs of the company as at 30 June 2006 and of its deficit and cash flows for the year then ended and comply with International Financial Reporting Standards and Kenyan Companies Act, Cap 486 of the Laws of Kenya.

Emphasis of Matter

Without qualifying my opinion, I draw attention to note 27 to these financial statement which indicates that as at 30 June 2006, the company's current liabilities exceeded current assets by Kshs.386,937,990 (2005- Kshs.517,848,877). 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 medium term. In addition, the company is in the process of sourcing funds for rehabilitation and modernization to further enhance efficiency. The financial statements have, therefore, been prepared on a going concern basis which assumes continued financial support from related parties.

P.N. Komora

P.N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

11 December 2006

CHEMELIL SUGAR COMPANY LIMITED
BALANCE SHEET
AS AT 30 JUNE 2006

	Note	2006 KShs	2005 KShs
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment	2	1,864,828,998	1,861,822,205
Capital work-in-progress	3	38,434,900	30,164,684
Loans to out-growers	4	174,996,290	149,014,033
Biological assets	5	88,298,497	58,285,621
		2,166,558,685	2,099,286,543
CURRENT ASSETS			
Biological assets	5	104,026,526	118,987,397
Stocks	6(a)	285,500,643	283,145,388
Loans to out-growers	4	100,176,863	76,107,645
Goods-in-transit	6(b)	16,354,104	57,437,739
Debtors and prepayments	7	52,091,229	99,107,884
Tax recoverable	22	14,288,874	14,061,358
Bank and cash balances	8	33,540,069	28,672,330
		605,978,308	677,519,741
TOTAL ASSETS		2,772,536,993	2,776,806,284
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	9	211,591,620	211,591,620
Reserves	10	908,727,422	1,017,604,253
		1,120,319,042	1,229,195,873
NON-CURRENT LIABILITIES			
Deferred tax	11	265,605,555	277,098,936
Loans	12	393,696,098	75,142,857
		659,301,653	352,241,793
CURRENT LIABILITIES			
Bank overdraft	13	72,871,947	100,565,813
Loans payable within one year	12	92,799,660	389,974,833
Creditors and accrued charges	14	820,452,866	698,306,143
Dividend payable		4,409,996	4,409,996
Directors' current account		2,381,829	2,111,833
		992,916,298	1,195,368,618
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		2,772,536,993	2,776,806,284

The financial statements were approved by the Board of Directors on 22/09/ 2006
and signed on its behalf by:-

) Director
)
)
) Director

CHEMELIL SUGAR COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 KShs	2005 KShs
SALES	15	2,433,923,703	2,133,775,216
COST OF SALES	16	(2,323,539,440)	(1,870,433,149)
GROSS PROFIT		110,384,263	263,342,067
CHANGES IN FAIR VALUE LESS ESTIMATED POINT-OF-SALE COSTS OF BIOLOGICAL ASSETS	5	15,052,005	29,764,950
		125,436,268	293,107,017
OTHER INCOME	17	21,791,059	9,764,834
		147,227,327	302,871,851
EXPENSES:-			
Administration and establishment	18	258,193,518	240,188,630
Other charges and expenses	19	12,123,986	2,414,753
		270,317,504	242,603,383
(LOSS)/PROFIT FROM OPERATING ACTIVITIES		(123,090,177)	60,268,468
NET FINANCE INCOME/(COSTS)	20	2,719,965	(1,966,011)
(LOSS)/PROFIT BEFORE TAXATION	21	(120,370,212)	58,302,457
TAXATION	22	11,493,381	(24,510,110)
(LOSS)/PROFIT AFTER TAXATION		(108,876,831)	33,792,347
(Loss)/earnings per share	23	(10.29)	3.19

CHEMELIL SUGAR COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Share capital KShs	Revaluation reserves KShs	Retained earnings KShs	Total equity KShs
At 1 July 2004	211,591,620	891,508,732	92,303,174	1,195,403,526
Release of capital reserves:				
Relating to depreciation	-	(47,822,246)	47,822,246	-
Profit for the year	-	-	33,792,347	33,792,347
At 30 June 2005	211,591,620	843,686,486	173,917,767	1,229,195,873
At 1 July 2005	211,591,620	843,686,486	173,917,767	1,229,195,873
Release of capital reserves:				
Relating to depreciation	-	(47,924,616)	47,924,616	-
Loss for the year	-	-	(108,876,831)	(108,876,831)
At 30 June 2006	211,591,620	795,761,870	112,965,552	1,120,319,042

CHEMELIL SUGAR COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 KShs	2005 KShs
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before taxation		(120,370,212)	58,302,457
Adjustments for:-			
Depreciation		131,531,482	127,228,803
Interest income		(42,173,171)	(33,454,617)
Profit on disposal of motor vehicles		(145,500)	-
Interest expense		39,453,206	35,420,628
Change in fair value of biological assets		(15,052,005)	(8,029,372)
Operating (loss)/profit before working capital changes		(6,756,200)	179,467,899
Stocks		(2,355,255)	(35,903,898)
Goods-in-transit		41,083,635	(22,118,933)
Debtors and prepayments		47,016,655	(1,885,259)
Loans to out-growers		(50,051,475)	(35,490,352)
Creditors and accrued charges		122,146,723	(35,633,760)
Directors' current account		269,996	(144,167)
Cash generated from operations		151,354,079	48,291,530
Interest paid		(18,075,138)	(14,860,591)
Income taxes paid		(227,516)	(179,778)
Net cash flows from operating activities		133,051,425	33,251,161
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(134,538,275)	(20,117,505)
Proceeds from disposal of motor vehicles		145,500	-
Interest received		42,173,171	33,454,617
Capital work-in-progress		(8,270,216)	(12,358,086)
Net cash flows from investing activities		(100,489,820)	979,026
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loans		-	(88,893,370)
Net cash flows from financing activities		-	(88,893,370)
Net increase/(decrease) in cash and cash equivalents		32,561,065	(54,663,183)
Cash and cash equivalents at the beginning of the year		(71,893,483)	(17,230,300)
Cash and cash equivalents at the end of the year	8	(39,331,878)	(71,893,483)

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements are prepared on the historical cost basis of accounting modified by the revaluation of certain assets.

b) Turnover
Turnover represents the value of sugar and molasses supplied by the company net of Sugar Development Levy and Value Added Tax. Other income earned by the company is recognised on accrual basis.

c) Property, plant & equipment and depreciation
Property, plant & equipment are stated at cost or valuation, less accumulated depreciation.

Depreciation is calculated on the straight line basis at annual rates estimated to write off the carrying values of the assets over their expected useful lives. The annual depreciation rates in use are:

	%
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

Freehold land is not depreciated.

Excess depreciation on the revaluation surplus is transferred from revaluation reserve to revenue reserve.

Property, plant and equipment are periodically reviewed for impairment. When the carrying amount of the asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

d) Stocks
Stocks are valued at the lower of cost and net realisable value. Cost of bagged sugar stock comprises expenditure incurred in the normal course of business, including direct material costs, labour and production overheads. Cost of other stocks 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 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.

e) Research and development
Research and development expenditure is charged to profit and loss account in the year in which it is incurred.

f) Foreign currency transactions
Transactions during the year are converted to Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit and loss account.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Retirement benefits costs
The company operates a defined benefit pension scheme for non-unionisable employees. The assets of this scheme are held in a separate trustee administered fund, which is funded by contributions from both the employees and the company. Benefits are paid to retiring staff in accordance with the rules. The cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out every three years. Under this method, the cost of providing pensions 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 as the present value of the estimated future cash outflows. 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.

h) Impairment of assets
The company assesses at each reporting date whether there is an indication that an asset may be impaired. If such indication exists, 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.

i) Taxation
Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation. Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

j) Biological assets
Biological assets are measured at fair value less estimated point of sale costs. Any changes to the fair value are recognized 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 recognized in the profit and loss account in the period in which they are incurred.

k) Employee entitlements
The monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

l) Borrowing costs
Borrowing costs are recognised as an expense when incurred.

m) Trade and other receivables
Trade and other receivables are recognised at original amount less allowances for any unrecoverable amount. Specific provision is made for all known doubtful debts when collection of the full amount is no longer probable.

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

2. PROPERTY, PLANT & EQUIPMENT

	Freehold land and buildings KShs	Plant, equipment and machinery KShs	Vehicles and other equipment KShs	Total KShs
COST				
At 1 July 2004	865,226,171	1,887,485,628	144,337,577	2,897,049,376
Additions	1,614,052	14,408,135	4,095,318	20,117,505
At 30 June 2005	866,840,223	1,901,893,763	148,432,895	2,917,166,881
Comprising:				
Cost	173,825,223	912,787,342	111,907,894	1,198,520,459
Valuation	693,015,000	978,793,604	46,837,818	1,718,646,422
At 30 June 2005	866,840,223	1,891,580,946	158,745,712	2,917,166,881
DEPRECIATION				
At 1 July 2004	103,735,039	705,911,824	118,469,010	928,115,873
Charge for the year	15,320,095	101,836,832	10,071,876	127,228,803
At 30 June 2005	119,055,134	807,748,656	128,540,886	1,055,344,676
NET BOOK VALUE				
At 30 June 2005	747,785,089	1,083,832,290	30,204,826	1,861,822,205
COST				
At 1 July 2005	866,840,223	1,901,893,763	148,432,895	2,917,166,881
Additions	3,186,037	129,315,576	2,036,662	134,538,275
Disposals	-	-	(1,150,000)	(1,150,000)
At 30 June 2006	870,026,260	2,031,209,339	149,319,557	3,050,555,156
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
At 30 June 2006	870,026,260	2,031,209,339	149,319,557	3,050,555,156
DEPRECIATION				
At 1 July 2005	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
Disposals	-	-	(1,150,000)	(1,150,000)
At 30 June 2006	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	1,864,828,998

The assets were revalued by Tysons Limited, professional valuers, on depreciated replacement cost basis on 31 December 1996 and the resulting surplus was credited to a revaluation reserve (note 10).

		2006	2005
3.	CAPITAL WORK-IN-PROGRESS	KShs	KShs
	Factory machinery and buildings	36,600,709	28,699,354
	Others	1,834,191	1,465,330
		38,434,900	30,164,684

		2006	2005
4.	LOANS TO OUT-GROWERS		
	Societies	281,853,698	236,968,210
	Large and medium scale farmers	60,946,893	51,175,782
	Transport and equipment loans	833,736	833,735
		343,634,327	288,977,727
	Less: Provision for bad and doubtful debts	(68,461,174)	(63,856,049)
		275,173,153	225,121,678
	Less: Long term portion	(174,996,290)	(149,014,033)
	Receivable within one year	100,176,863	76,107,645

5	BIOLOGICAL ASSETS	Livestock KShs.	Growing cane KShs.	2006 KShs	2005 KShs
	Balance at 30 June 2005	495,000	176,778,018	177,273,018	147,508,068
	(Loss)/gain arising from change in fair value attributable to physical changes	(92,500)	6,908,664	6,816,164	2,023,869
	Gain arising from change in fair value attributable to price changes	-	4,657,372	4,657,372	6,105,503
	Additions during the year	-	55,352,959	55,352,959	74,742,587
	Cane harvested during the year	-	(51,774,490)	(51,774,490)	(53,107,009)
	Changes in fair value during the year	(92,500)	15,144,490	15,052,005	29,764,950
	Balance at 30 June 2006	402,500	191,922,523	192,325,023	177,273,018
	Less: current portion	(402,500)	(103,624,026)	(104,026,526)	(118,987,397)
	Long term portion	-	88,298,497	88,298,497	58,285,621

The valuation of standing cane is based on the estimated market price at the balance sheet date. The significant assumptions made in determining the fair values of biological assets are:

- The market price of cane will not significantly change from KShs.1,978 per tonne (2005: KShs.1,930 per tonne).
- Growing cane has a productive life of eighteen months. Cane at age of six months and below is assumed to mature after a period of twelve months after the balance sheet.
- Climatic conditions will remain the same.
- The government will not make significant policy changes in the management of the sugar sub-sector.

6 (a) STOCKS

	2006 KShs	2005 KShs
Finished sugar	688,862	4,729,683
Factory and field stores	305,461,400	291,560,783
Milled sugar-in-process	10,205,428	14,394,456
Filling station	1,014,750	658,680
Molasses	190,356	108,570
Fuels	-	1,080,640
Stationery	1,810,942	2,296,475
Medicines	977,911	822,800
	320,349,649	315,652,087
Less: Provision for obsolete stocks	(34,849,006)	(32,506,699)
	285,500,643	283,145,388

6 (b) GOODS-IN-TRANSIT

The balance is in respect of the importation of various spare parts for the manufacturing plant.

7. DEBTORS AND PREPAYMENTS

	2006 KShs	2005 KShs
Trade debtors	28,304,249	63,872,333
Other debtors	49,558,964	31,335,530
Prepayments and deposits	6,923,167	35,395,752
	84,786,380	130,603,615
Less: Provision for bad and doubtful debts	(32,695,151)	(31,495,731)
	52,091,229	99,107,884

8. BANK AND CASH BALANCES

Bank and cash balances	11,040,219	7,164,856
Short term bank deposits	22,499,850	21,507,474
	33,540,069	28,672,330

For the purposes of the cash flow statement, cash and cash equivalents comprise of the following at 30 June:

	2006 KShs	2005 KShs
Bank and cash balances	11,040,219	7,164,856
Short term bank deposits	22,499,850	21,507,474
Bank overdraft	(72,871,947)	(100,565,813)
	(39,331,878)	(71,893,483)

9. SHARE CAPITAL

Authorised, issued and fully paid:-		
10,579,581 ordinary shares of KShs 20/= each	211,591,620	211,591,620

10. RESERVES

	2006 KShs	2005 KShs
Retained earnings	112,965,552	173,917,767
Revaluation reserves	795,761,870	843,686,486
	908,727,422	1,017,604,253

11. DEFERRED TAX

The provision for deferred tax comprises:		
Excess of tax allowances over depreciation	355,323,805	346,222,075
Tax losses	(140,471,585)	(114,983,172)
Other temporary differences	50,753,335	45,860,033
	265,605,555	277,098,936

12. LOANS

Total loans	486,495,758	465,117,690
Less: long term portion	(393,696,098)	(75,142,857)
Payable within one year	92,799,660	389,974,833

The loans were received from Kenya Sugar Board (KSB) under the Sugar Development Fund (SDF) programme in respect of cane development, irrigation project, nucleus estate road development, purchase of agricultural equipment, factory rehabilitation and payment of farmers arrears. The interest rates range from 3% p.a. to 5% p.a.

13. BANK OVERDRAFT

The bank overdraft is secured by a debenture for KShs.60 million over the assets of the company and legal charge over L.R. numbers 1611/4, 11840 and 1612/4, Kisumu, and a lien over funds held in fixed deposits.

14. CREDITORS AND ACCRUED CHARGES

	2006 KShs	2005 KShs
Cane creditors	205,769,245	133,151,468
Trade creditors	344,711,010	297,767,855
Other creditors and accruals	269,972,611	267,386,320
	820,452,866	698,306,143

15. SALES

Gross sales	2,880,894,794	2,600,733,100
Less taxes:		
Value Added Tax	(324,960,084)	(355,793,947)
Sugar Development Levy	(122,010,997)	(111,163,937)
Net Sales	2,433,923,703	2,133,775,216
Gross sales comprise of the following:		
Milled local sugar	2,163,581,701	1,973,441,685
Imported sugar	681,432,186	605,385,947
Molasses	35,880,897	21,905,468
	2,880,894,794	2,600,733,100

Milled local sugar sales relate to the sugar produced and sold, while the imported sugar is in respect of sales of sugar import transacted in the year. The actual amount received is the net between purchase and sale prices.

16. COST OF SALES

	2006 KShs	2005 KShs
Cost of cane	1,093,163,097	961,550,778
Cost of imported sugar	637,154,315	409,876,484
Factory costs	589,181,208	496,938,499
Decrease in closing stock of sugar	4,040,820	2,067,388
	2,323,539,440	1,870,433,149

17. OTHER INCOME

Stock adjustment	2,150,313	(303,436)
Miscellaneous income	19,640,746	10,068,270
	21,791,059	9,764,834

18. ADMINISTRATION AND ESTABLISHMENT EXPENSES

Finance and administration departments expenses	110,508,305	106,554,123
Human resources department expenses	147,685,213	133,634,507
	258,193,518	240,188,630

19. OTHER CHARGES AND EXPENSES

Provision for bad and doubtful debts	12,123,986	2,414,753

20. NET FINANCIAL INCOME/(COSTS)

Interest income	42,173,171	33,454,617
Bank charges and interest	(18,075,138)	(14,860,591)
Interest on loans	(21,378,068)	(20,560,037)
	2,719,965	(1,966,011)

21. (LOSS)/PROFIT BEFORE TAXATION

The (loss)/profit before taxation is stated after charging:-

Depreciation	131,531,482	127,228,803
Directors' emoluments:		
Fees	10,223,476	8,661,433
Other	10,830,010	8,565,402
Auditors' remuneration	1,500,000	1,250,000
Interest payable	39,453,206	35,420,628
Staff costs:		
Salaries and wages	366,818,398	316,116,401
Leave pay/allowances	4,101,502	4,384,236
Pension costs - Defined benefits scheme	10,927,759	11,932,008
- National Social Security Fund	2,596,731	2,622,482
	384,444,390	335,055,127

		2006	2005
21.	(LOSS)/PROFIT BEFORE TAXATION (Cont.)	KShs	KShs
	And after crediting:-		
	Gain in fair value of biological assets	15,052,005	29,764,950
	Interest receivable	42,173,171	33,454,617

22. TAXATION

BALANCE SHEET

	2006	2005
Balance brought forward	14,061,358	13,881,580
Paid during the year	227,516	179,778
	14,288,874	14,061,358
PROFIT AND LOSS ACCOUNT		
Deferred tax	11,493,381	24,510,110

Due to losses made during the year and accumulated tax losses brought forward from previous years, no corporation tax expense has been recognised in this financial year.

23. (LOSS)/EARNINGS PER SHARE

The (loss)/earnings per share is calculated on the (loss)/profit after tax of KShs.108,876,831 (2005: profit of KShs.33,792,347 and on the number of ordinary shares at the respective balance sheet date of KShs. 10,579,581 shares.

		2006	2005
25.	CAPITAL COMMITMENTS	KShs	KShs
	Authorised and contracted for	14,802,247	22,473,039

These relate to commitments with the suppliers of factory and agricultural plant and machinery.

26. 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 KShs.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) During the year, the company was issued with additional tax of KShs.44,601,996 in respect of PAYE and withholding tax for the years 2001 to 2004. A notice of objection has been lodged against the assessment. No accrual has been made in the financial statements as the company is still negotiating with the tax authorities.

c) As at 30 June 2005, the company was a defendant in various litigations and claims amounting to KShs.5,948,582 (2004: KShs.6,392,536) which arose in the ordinary course of business. No provision has been made in the financial statements, as the directors believe, based on information currently available, that the ultimate resolution of these legal proceedings would not likely have a material effect on the operations of the company.

26. CONTINGENT LIABILITIES (Cont.)

d) 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 1 July 2005. The results of the valuation confirmed that the level of funding of the scheme is 84.5%, which is above the minimum requirement by the Retirement Benefits Regulations of 80%. However, there is a past service actuarial deficit of KShs.17.885 million as shown below:

	KShs'000'
Past service accrued liabilities	115,275
Fair value of scheme assets	(97,390)
Past service pension deficit	17,885

In order to eliminate the above deficit faster, the actuaries recommended that the company continue to contribute at the current higher rate of 23.4%. As a result, no provisions have been made in these financial statements to fully or partly recognise the deficit, as the directors are of similar view with that of the actuaries.

27. OPERATIONS

The shortfall between the current assets and current liabilities of KShs.386, 937,990 (2005: KShs. 517,848,877) is, in the opinion of the directors, a temporary phenomenon, that will not impair the operations of the company in both the short and medium term. The company expects to revert to profitability from the next financial year due to improved cane availability and enhanced operational efficiency. In addition, the major breakdowns of key units in the factory which led to low production and increased costs in the year are not expected to recur as the problem has been substantially addressed through routine maintenance. In addition, the company is in the process of sourcing fund for rehabilitation and modernization to further enhance efficiency.

28. COMPARATIVES

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

29. EMPLOYEES

The average number of employees for the company during the year was 1,056 (2005-1,019).

30. CURRENCY

These financial statements are presented in Kenya Shillings (KShs.).