



*Enhancing Accountability*

## REPORT

OF

<b>THE AUDITOR-GENERAL</b>	
THE NATIONAL ASSEMBLY	
DATE: 19 AUG 2021 ON <u>Thursday</u>	
TABLED BY:	<u>LOM</u>
CLERK-AT THE-TABLE:	<u>Benson Inzofu</u>

**NZOIA SUGAR COMPANY  
LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2019**









Sweetening Kenya  
since 1978

HEAD OFFICE  
P.O. BOX 285 - 50200,  
BUNGOMA



**nzoi sugar**  
Company Ltd

TEL:- 055 - 30500

Fax :- 055 - 30001

E-mail: [md@nzoiassugar.com](mailto:md@nzoiassugar.com)

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019**



*Sweetening Kenya Since 1978*

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







**Nzoia Sugar Company Limited**  
**Annual Reports and Financial Statements**  
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**I. KEY COMPANY INFORMATION**

**WHO WE ARE**

Nzoia Sugar Company Limited (NSC) was established in 1975 and started operations in 1978. It was formed under the Companies Act Cap 486 of the Laws of Kenya with Memorandum and Articles of Association and issued certificate of incorporation No.C13734 on 1<sup>st</sup> August, 1975. The mandate of the company at the time of inception was to establish sugar cane plantations, manufacture sugar and create employment. The Shareholding of the Company includes Kenya Government with 97.94 % shares, Fives Cail with 1.13 % shares and Industrial Development Bank (IDB) holding the remaining 0.93 % shares. The company is a major player in the Kenyan Sugar sector. It is located in Bungoma County and serves farmers in Bungoma and Kakamega Counties. The raw material base comprises a Nucleus Estate spanning 3,600ha and an out grower scheme made of 77, 000 small holder farmers and 26,000ha.

**OUR VISION**

*To be globally competitive in Production and Marketing of sugar and other products*

**OUR MISSION**

*To efficiently, innovatively and sustainably produce and market sugar and other products in a clean and safe environment to the satisfaction of all stakeholders*

**OUR MANDATE**

The Company's core mandate includes the following;

- a) To manufacture and sell sugar and it's co-products from sugarcane.
- b) To facilitate establishment and maintenance of sugarcane plantations in both the nucleus estate and Out growers scheme.

**CORE VALUES**

The Company core values are:

- (a) **Customer Care** The Company shall remain committed to processes and procedures that emphasize the assessment of needs, the design and delivery of programmes, monitoring and evaluation to the satisfaction of Customers.
- (b) **Integrity**- The Company, Staff and its agencies will uphold integrity, honesty, transparency, accountability and commit to processes that facilitate regular and timely feedback on progress and performance.
- (c) **Professionalism**- The Company and its Staff will exhibit the highest standards of professionalism in their engagement with clients and Customers. Company staff will at all-times exercise commitment and dedication to their work, remain respective and timely in delivery of services.
- (d) **Productive and Results-oriented**- Company staff shall at all times be productive and be focused on achieving the set targets and results. Teamwork shall be the driving force for collective implementation of plans and programmes across departments.
- (e) **Creativity and Innovation**- The Company will endeavour to harness the creative talents of its staff and promote R & D while developing and providing innovative solutions to challenges faced in the Sugar Industry.
- (f) **Corporate Social Responsibility**- The Company will be a responsible corporate entity that addresses relevant needs of the community in which it operates.

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**Principal Activities**

The principal activities of the company are:

- (i) the production and sale of sugar and its co-products.



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**KEY COMPANY INFORMATION ..... continued**

- (ii) facilitate establishment and maintenance of sugarcane plantations in both the nucleus estate and Out growers scheme.

**Key Management**

Nzoia Sugar Company Limited day to day management is under the following key organs:

- Board of Directors
- CEO; and
- Senior Management Team

The day to day operations are overseen by a CEO who is supported by 14 senior managers. The company has a board of directors that provide policy and oversight of its operations on behalf of the shareholders.

**Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2019 and who had a direct fiduciary responsibility were:

NO	DESIGNATION	NAME
1	Ag. Chief Executive Officer	Mr. Ignatius Wafula
2	Ag. Company Secretary	Ms. Ritah Mukhongo
3	Factory Manager	Mr. David Mulungwa
4	Ag. Production Manager	Mr. Benjamin Mbaya
5	Internal Audit Manager	CPA Lucas Otene
6	Ag. Agriculture Services Manager	Mr. Erick Wamai
7	Finance Manager	CPA Ezron Kotut
8	Diversification Manager	Mr. Macklins Sikuku
9	Marketing & Sales Manager	Ms. Edwina Omollo
10	Environmental, Health and Safety manager	Mr. David Egesa
11	Ag. Human Resource Manager	Mr. Shadrack Masinde
12	Ag. ICT Manager	Mr. Suleiman n Wanekeya
13	Ag. Purchasing Manager	Ms. Gladys Nd'ungu
14	Ag. Agriculture Manager	Mr. Jeremiah Khamala
15	Public Relations Officer	Mr. Gilbert Awino

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**KEY COMPANY INFORMATION ..... continued**

**CORPORATE INFORMATION**

<b>DIRECTORS</b>	Hon. Joash Wamangoli CPA Michael Wanjala Karen Kandie Richard Njoba Dr. Stephen Ikikii Zakayo Magara Hillary Changwony Tom Ipomai Stephen Kisaka Mary Makokha Patrick Musumba Anne Omodho	- Chairman - Appointed on 19 <sup>th</sup> July 2018 - Managing Director - Appointed on 15 <sup>th</sup> July 2019 - IDB Capital - Appointed by virtue of office - FCB - Appointed by virtue of office - Alt to PS The National Treasury & Planning - Alt to PS Ministry of Agriculture Livestock & Fisheries - Appointed on 20 <sup>th</sup> September 2018 - Appointed on 20 <sup>th</sup> September 2018 - Appointed on 20 <sup>th</sup> September 2018 - Appointed on 20 <sup>th</sup> September 2018 - Appointed on 20 <sup>th</sup> September 2018 - Appointed on 20 <sup>th</sup> September 2018
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<b>COMPANY SECRETARY</b>	- CPS Ritah Mukhongo Certified Public Secretary (Kenya) P. O Box 285-00100 Bungoma
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<b>REGISTERED OFFICE</b>	Off Webuye – Malaba Road 5 kms from Bukembe Junction P O Box 285-50200 Bungoma, Kenya
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<b>CONTACTS</b>	Telephone - 055-30500, +254727477777 Email: md@nzoiasugar.com Website: <a href="http://www.nzoiasugar.com">www.nzoiasugar.com</a>
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<b>PRINCIPAL AUDITORS</b>	The Auditor General P O Box 30084 - 00100 Nairobi
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<b>BANKERS</b>	Diamond Trust Bank Bungoma Branch P O Box 726-50200 Bungoma	The Co-operative Bank of Kenya Limited Bungoma Branch P O Box 1964 – 50200 Bungoma	Standard Chartered Bank (K) Ltd Eldoret Branch P O Box 30100 Eldoret
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<b>PRINCIPAL BANKERS</b>	Kenya Commercial Bank Limited Bungoma Branch P O Box 380 – 50200 Bungoma	National Bank of Kenya Limited Bungoma Branch P O Box 25 – 50200 Bungoma
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<b>ADVOCATES</b>	Olotch & Company Advocates P O Box 7146 – 00100 Nairobi	Buluma & Company Advocates P O Box 6152 – 30100 Eldoret
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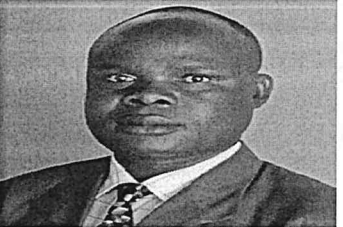


Wekesa & Simiyu  
Advocates  
P O Box 10299 – 00100  
Nairobi

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**II. THE BOARD OF DIRECTORS**

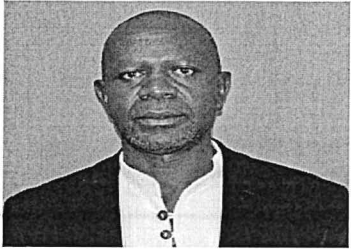
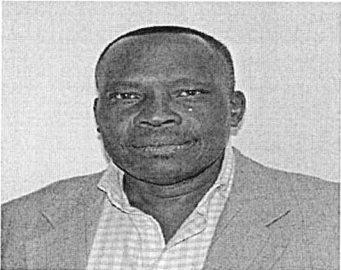


<p>1. Hon. Joash Wamang'oli-Chairman</p> 	<p>Hon. Joash Wamang'oli is 69 years old, a diploma holder with over 30 years experience in leadership and management and was a former Member of Parliament for Webuye. He is a seasoned businessman. Hon. Wamang'oli has served on the board since 2015.</p>
<p>2. CPA Michael Makokha Wanjala</p> 	<p>CPA Michael Wanjala is 39 years old and holds a Masters in Business Administration and Bachelors of Commerce both from University of Nairobi, Certified Public Accountant (K), member of ICPAK and an ISO Certified Auditor. He has over 15 years' experience in Professional training, Accountancy, Risk, Strategy, Management and Finance. He was appointed to the board on 15<sup>th</sup> July 2019.</p>
<p>3. Mr. Ignatius B Wafula</p> 	<p>Mr. Ignatius Wafula is 45 years old and holds a Masters in Project Planning in Production Engineering. He is a registered member of graduate engineers. He is in charge of Agriculture Services department with over 16 years experience.</p> <p>He took over as the Acting. Managing Director from January 2019 from the late Mr. Michael Kulundu who served till December, 2018.</p>
<p>4. Mrs. Mary Makokha</p> 	<p>Mrs. Mary Makokha is 56 years old and holds Bachelors degree in Counseling Psychology from Mount Kenya University, member of Parenting in Africa Network(PAN), a member of Busia County Security Committee ,Busia County Health committee, Busia Sub County Education and board member of Lugulu AC High school. She is the Executive Director of REEP and has over 22 years experience in management.</p>
<p>5. Mrs. Karen Kandie</p> 	<p>Mrs. Karen Kandie is the Managing Director of IDB Capital Limited from May 2017. She serves as an Advisor to The Board of Trustees, Micro-Enterprises Support Programme Trust (MESPT) and is a past member of the Capital Markets Tribunal. Previously, she served as the Director of Finance at Shelter Afrique; Head of Finance &amp; Administration at Nairobi Securities Exchange; Manager, Risk Management and Internal Audit at Faulu Kenya Limited; Financial Controller at Co-operative Bank of Kenya; Management Accountant at ABN AMRO Bank and a Senior Auditor at PricewaterhouseCoopers Limited.</p> <p>She holds a Master of Business Administration from Murdoch University, Western Australia. She is a B.Com holder from the University of Nairobi and is a Certified Public Accountant (CPA-K) and Certified Financial &amp; Investment Analyst (CIFA). Karen is currently pursuing a Doctorate in Business Administration.</p>

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<p>6 Mr. Zakayo Magara</p> 	<p>Mr. Zakayo Magara is 60 years old, a career civil servant who has since retired from civil service. He has over 33 years experience in various positons in Ministry of Agriculture, Livestock Irrigation &amp; Fisheries. He has BSC in Agriculture from University of Nairobi. He is a member of Kenya Society for Agricultural Professionals (KESAP). He was alternate to Permanent Secretary to Ministry of Agriculture, Livestock Irrigation &amp; Fisheries.</p>
<p>7. Ms. Anne Omodho</p> 	<p>Ms. Anne Omodho is 55 years old, a marketing professional and business executive. She holds an MBA from University of Derby, BSC in Business administration (Marketing) from Western International University and CAM diploma in advertising and LCCI diploma in public relations strategies.</p>
<p>8. Mr. Hillary Changwony</p> 	<p>Mr. Hillary Changwony is 51 years old , a teacher by profession and served as Deputy Governor of Bungoma County. He has a Masters of education (Administration), Bachelor of Education from Egerton University and Diploma in Education science from Moi Teachers College Eldoret. He is currently pursuing PHD in Disaster Management from Masinde Muliro University.</p>
<p>9. Mr. Tom Ipomai</p> 	<p>Mr. Tom Ipomai is 46 years old, a Professional and Chartered Accountant, banker, ICT expert, consultant and business leader. He holds a first-class degree in computer science from UON and master of philosophy (Mphil) degree in management studies from Cambridge (Form College). He is also a financial modelling and valuation analyst. He currently serves in board of KCB Group PLC.</p>
<p>10. Dr. Stephen Ikikii</p> 	<p>Dr. Stephen Ikikii is 41 years old and holds a PhD in Economics, MSc in Financial Economics and BSc (Mathematics &amp; Statistics). He is a full member of Institute of Certified Investment and Financial Analysts (ICIFA). He is an Economist with over 13 years' experience at the National Treasury, and has represented Cabinet Secretary to the National Treasury in over 10 different boards of State Corporations. He is the alternate member to the Cabinet Secretary, the National Treasury.</p>

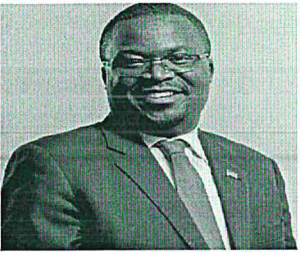



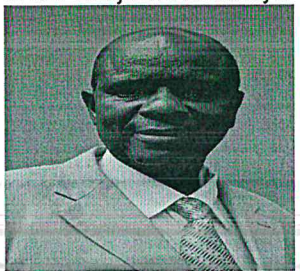


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<p><b>11. Mr. Stephen Kisaka</b></p> 	<p>Mr. Stephen Kisaka is 47years old, a management consultant in strategy, planning and revenue management with over 20 years' experience in private sector. He has great understanding and usage of business information systems. He has Bachelor's Degree in Education from Kenyatta University and Masters of Science in Mathematics and Computing from Kenyatta University.</p>
<p><b>12. Mr. Patrick Musumba</b></p> 	<p>Mr. Patrick Musumba is 61 years old, a seasonal educationist and businessman with over 30 years experience. He has a Bachelor of Education Degree and a Diploma in Business Education (Accounting option).</p>
<p><b>13. Mr. Richard Njoba</b></p> 	<p>Mr. Richard Njoba is 62 years old with over 30years experience in the private sector. He sits on the board as alternate director of Fives Cail (FCB).</p>
<p><b>14. Ms. Ritah Mukhongo</b></p> 	<p>Ms. Ritah Mukhongo is 39 years old, the Ag. Company Secretary. She holds Bachelor of Law Degree LLB; post graduate Diploma in Law and currently undertaking master's programme MBA in Strategic Management. She is an advocate of the High Court of Kenya, a certified professional mediator, a commissioner for oaths and notary public. She has over 15 years' experience in Legal matters. She took over on 15<sup>th</sup> January 2018.</p>

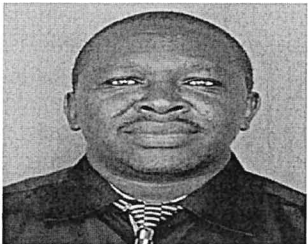


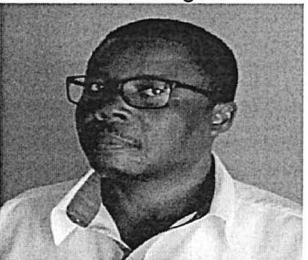


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**III. MANAGEMENT TEAM**


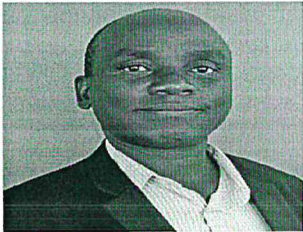


<p>1. CPA. Michael Makokha</p> 	<p>CPA Michael Wanjala holds a Masters in Business Administration and Bachelors of Commerce both from University of Nairobi, Certified Public Accountant (K), member of ICPAK and an ISO Certified Auditor. He has over 15 years' experience in professional training, Accountancy, Risk, strategy, management and finance. He is currently Managing Director having been appointed on 15<sup>th</sup> July 2019</p>
<p>2. Mr. Ignatius B Wafula</p> 	<p>Mr. Ignatius Wafula is in charge of Agriculture Services Department. He holds masters in Project Planning in Production Engineering. He is a registered member of graduate engineers. He has 16 years experience.</p> <p>He took over as the Acting. Managing Director from January 2019 from the late Mr. Michael Kulundu who served till December, 2018.</p>
<p>3. Ms. Ritah Mukhongo</p> 	<p>Ms. Ritah Mukhongo is the Acting Company Secretary. She holds Bachelor of Law Degree LLB, post graduate Diploma in Law and currently undertaking master's programme MBA in Strategic Management. She is an advocate of the High Court of Kenya, a certified professional mediator, a commissioner for oaths and notary public. She has over 15 years' experience in Legal matters. She took over on 15<sup>th</sup> January, 2018.</p>
<p>4. Mr. David S Mulungwa</p> 	<p>Mr. David Mulungwa is the Factory Manager. He holds Bachelor of Science Mechanical Engineering. He is a registered member of Engineering Board. He has over 28 years of experience in the Sugar Industry .</p>
<p>5. Mr. Benjamin M Mbaya</p> 	<p>Mr. Benjamin Mbaya is the head of production. He has Bachelors in Chemistry from University of Nairobi and Masters in Business Administration from Masinde Muliro University. He is also a member of Chemical Society of Kenya and has 30 years of experience in Sugar Industry.</p>



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<p>6. CPA. Ezron K Kotut</p> 	<p>CPA. Ezron Kotut is the Finance manager. He holds Masters of Business Administration. He is a Certified Public Accountant (K) and a member of ICPAK. He has over 15 years experience in the private sector and 9 years' experience in sugar industry. He is currently pursuing Degree in Management and Leadership from Management University of Africa.</p>
<p>7. Mr. Macklins W Sikuku</p> 	<p>Mr. Macklins Sikuku is the head of Diversification. He holds Bachelor degree in Agriculture. He has over 27 years of experience</p>
<p>8. Ms. Edwina A Omollo</p> 	<p>Ms. Edwina Omollo is the head of Sales and Marketing. She holds a Bachelor Degree in Business Administration. She holds various certificates in sales and marketing. She has over 13 years experience in sales and marketing.</p>
<p>9. Mr. David B Egesa</p> 	<p>Mr. David Egesa is the Environmental, Health and safety manager. He holds a master in Agriculture and Rural Development, and Bsc- Agriculture. He holds a Diploma in Applied science. He has over 30 years experience in the sugar industry.</p>
<p>10. Mr. Shadrack N Masinde</p> 	<p>Mr. Shadrack Masinde is currently Acting. Human Resource Manager. He is a holder of Bachelor of Arts degree in Government and Public Administration, Member of CHRM. He has over 18 years experience.</p>
<p>11. Mr. Suleiman S Wanekeya</p> 	<p>Mr. Suleiman Wanekeya is currently Acting. Information Communication &amp; Technology Manager. He is pursuing Masters degree in strategic Management, Holds Bsc- Information Technology, Diploma Project management, Microsoft certified professional. He has 10 years working experience in Information Technology.</p>

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<p>12. Ms. Gladys Ndungu</p> 	<p>Ms. Gladys Ndungu is the Acting Purchasing Manager. She holds a Masters in Strategic Management, degree in Agricultural Engineering and a Diploma in Purchasing and Supplies. She has 13 years' experience in procurement. She took over in April, 2019.</p>
<p>13. Mr. Jeremiah J Khamala</p> 	<p>Mr. Jeremiah J Khamala is currently in charge of Agriculture department. He holds a bachelor in Agriculture. He has sustainable agriculture Training, with supervisory development skills and finance training for Non-Finance Managers. He has 22 years' experience.</p>
<p>14. Mr. Awino A Gilbert</p> 	<p>Mr. Awino Gilbert is the Public Relations Manager. He holds masters of Arts in Communication (Media studies) and Bachelor of Education Degree; He has a certificate on photography and Audio Visual communication. Member of PRSK with over 12 years experience.</p>
<p>15. CPA. Lucas A Otene</p> 	<p>CPA. Lucas Alwala Otene is the head of Internal Audit, He holds a master of Business Administration and Bachelors degree in Business Administrations. He is a Certified Public Accountant (K) and a member of ICPAK. He has over 15 years experience.</p>



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**IV. CHAIRMANS STATEMENT**

On behalf of the board of directors and management of the company allow me to present to you the annual report on the business and operations of the company and financial results for the year ended 30<sup>th</sup> June 2019. The performance of the company has continued to be impacted negatively by key industry challenges namely; lack of mature cane for milling, cane poaching, high cost of production due to milling underage cane and massive importation of sugar which impacted negatively on sugar prices. Consequently, a negative result has been recorded once again. However, the Board and Management have put in place measures and continue to implement strategies aimed at reversing this trend.

**SUGAR MARKET OUTLOOK**

White sugar prices (measured by the ISO White Sugar Price Index) were relatively stable during the first fortnight varying between KES.34,652.50/tonne and KES.35,378.75/tonne but decreased to KES.33,438.60/tonne by June 26<sup>th</sup>, the lowest daily quotation since last October. The index partly recovered to KES.34,336/tonne by the end of the month, resulting in a monthly average of KES.34,722/tonne, up 2.0% from the previous month. The monthly average Nominal White Sugar Premium (the differential between the ISO White Sugar Price Index and the ISA Daily Price) fell below KES5,187.50/tonne, a level that has not been seen by the market since February 2006.

Australia-based Green Pool has reduced its forecast global deficit in 2019/20 from 1.96 million tonnes to 1.62 million tonnes. Rabobank, meanwhile, sees a deficit of 4.2 million tonnes of raw sugar next season (October/September). The ISO plans to publish its first full-scale forecast for the world sugar balance in 2019/20 (October/September) in the first week of September 2019.

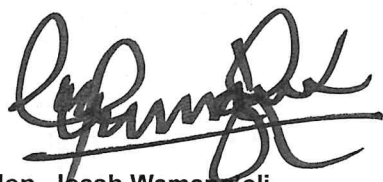
**Dividends**

Due to negative performance in year under review the Directors do not recommend the payment of dividends.

**Future Outlook**

The board has continued to implement short term measures and is currently pursuing a number of medium term and long term strategic measures to restore the company's solvency and return it to profitability. The board is making every effort to address issue of lack of mature cane, cane poaching and improving factory efficiencies.

The board will continually review the various business strategies in place to ensure sustained business profitability and growth. The board thanks the various stakeholders especially the Government of Kenya for the business support and hope they will support the company especially in the impending diversification and privatization.



**Hon. Joash Wamang'oli**  
**Chairman, Board of Directors**

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**V. MANAGING DIRECTOR'S REPORT**

On behalf of management I present to you the management report on the business and operations of the Company and financial results for the year ended 30<sup>th</sup> June, 2019. The year under review was challenging given that the factory has been operating below capacity due to lack of raw material for milling. However, prices of sugar increased from KES. 64,110 per ton net of taxes last financial year to KES. 72,745 per ton net of taxes in the year under review. The TC/TS in the year was 15.36. Turnover volumes reduced from 33,884 tons last financial year to 23,537 tons. However, management has put in place measures to correct the situation and is hopeful of improved cane supply and production.

**LOCAL SUGAR MARKET**

Total sugar production in January - June 2019 was 244,808 MT compared to 259,737 MT achieved in the same period last year, a drop of 6%. The decline was due to a fall in production in most of the sugar factories. The continued closure of Mumias, Kwale and Chemelil sugar factories has negatively affected the sugar production. In addition, during the month of June 2019, Nzoia and Muhoroni sugar factories recorded minimal operations after only operating for eight days. On the other hand, Kibos Sugar Company remained closed during the entire month for annual maintenance. Sukari Industries resumed operation on 5th June after carrying out factory maintenance from 17th May – 4th June 2019. Current lack of proper plan for cane development, partially attributed by lack or inadequate funds remain the primary cause of inadequate sugar cane, hampering cane availability, hence the continued decline in sugar production. The operationalization of Busia Sugar Industries Limited, which commenced operations in March 2019, helped in boosting sugar production.

Total sugar sales in 2019 were in tandem with the sugar production. A total of 241,783 tonnes were sold in the period, January - June 2019 compared to 247,206 tonnes traded in the same period last year, a drop of 2%. Total sugar closing stock held by all the sugar factories at the end of June 2019 was 7,212 tonnes against 19,606 tonnes observed in June 2018.

The ex-factory sugar price started the year 2019 at a monthly average of KES 4,082 and then dropped to KES 3,868 per 50kg bag in February. The downward trend was halted in March 2019, where the prices settled at an average price of KES 3,912 per 50kg bag. However, the trend reversed, and saw the prices increase steadily in the two subsequent months, April and May 2019 to end with a mean price of KES 3,990 and KES 4,632 per 50kg bag respectively. However, due to the increasing pressure from cheap sugar imports, the price trend inverted downwards in June 2019 resulting with a monthly averaged KES 4,366 per 50 kg bag.

Total sugar imports in June 2019 were 28,229 tonnes compared to 18,548 tonnes imported in the same period last year, an increment of 52%, attributed to low imports of both sugar types in June 2018. Table sugar imports were depressed in 2018 due to high sugar stocks in the market resulting from huge duty-free imports in 2017, while refined white sugar imports is driven by demand for finished sugar-based industrial products. During the month of June 2019, table sugar imports totalled 10,841 tonnes while refined white sugar was 17,387 tonnes.

Total sugar imports from the COMESA Free Trade Area Countries for the month were 14,921 tonnes, COMESA NON Free Trade Areas gave 2,000 tonnes, while East Africa Community provided 1,670 tonnes (all being from Uganda), whereas the rest of the world countries' imports were 9,638 tonnes.

Overall, sugar imports in January – June 2019 was 200,442 tonnes of which 111,656 tonnes was table sugar and 88,786 tonnes was refined white sugar. It is observed that the imports in this year were higher by 102% compared with 99,144 tonnes realized in January – June 2018. The increase was due to depressed table sugar imports in 2018 following huge stocks of cheap duty-free sugar shipped in 2017 according to the *AFFA Sugar Market Newsletter June 2019*.



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**MANAGING DIRECTOR'S REPORT ..... Continued**

**FINANCIAL PERFORMANCE**

Total turnover for the period under review was KES. 1.8 billion (2018- 2.4 billion) against a budget of 4.7 billion net of taxes. The sales were below target due to low production caused by lack of raw materials and frequent factory breakdowns due to non-maintenance.

Prices of sugar were unstable in the year under review due to influx of imported sugar. Prices of sugar averaged KES. 72,745 per ton net of taxes in the year under review compared to KES. 64,110 per ton net of taxes last financial year.

The company made a loss before tax and interest of KES. 3.2 billion (2018 – loss of KES. 3.6 billion) against budgeted profit before tax of KES.510 million.

**Achievements for the year ended 30<sup>th</sup> June 2019 are as follows:**

- Successfully renegotiated a Memorandum of understanding with the County Government of Bungoma for roads work. Currently the company has done 114.4 kilometres of access roads against a target of 110 kilometres.
- Received accreditation statues from the National Hospital Insurance Fund (NHIF) for the company clinic.

**Challenges for the period under review were as follows:**

- The Company bagged 23,537 tons of sugar (2018- 33,858 tons) against budget of 37,821 tons of sugar.
- The Tonnes of cane: Tonnes of sugar ratio was 15.36 (2018-13.83) compared to budget of 9.85.
- Cane poaching by private millers and cane neglecting by farmers due to cash-flow constraints that has seen the company not pay farmers on time.
- High costs of raw materials leading to high cost of production. The Sugar directorate does not constantly regulate cane prices as per the cane pricing formula hence sugar cane prices being a major factor of cost of production.
- The presence of cheap imported sugar on the market causing decline in sugar prices and depressed sugar market.
- Aging machinery that compromises on plant efficiency.
- Cash flow challenges.
- Prolonged drought affecting cane growth and development activities both in nucleus estate and out-growers regions.

**WAY FORWARD**

The company plans to counter the various challenges as follows:

**Short term measures**

- Source for funds to improve factory efficiencies by rehabilitating the boilers, mud filters, mills and pumps during the out of crop maintenance (OOC).
- Lobby for cane zoning to be reintroduced to protect company developed raw material and avert cane poaching. Increase area under cane by planting more fast maturing cane in the nucleus estate.
- No filling of vacant positions on staff exits unless on very critical jobs.

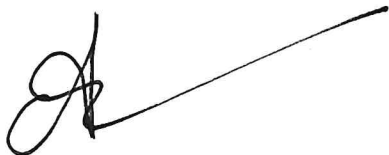
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**MANAGING DIRECTOR'S REPORT ..... Continued**

- Undertake immediate valuation of the company eucalyptus trees on the nucleus estate with a view of disposing them off and the proceeds to be used to revamp the factory machinery and nucleus estate.
- Commence the process of disposing the Kileleshwa property after obtaining all the relevant approvals and the proceeds be used to revamp the factory machinery, nucleus estate and pay insurances.

**Long term Measures**

- Procure additional farm machinery for cane husbandry in the nucleus estate.
- Improve sales distribution channels to increase company revenue
- Strengthen the company own fleet for cane transportation.
- Liming of acidic soils in Nucleus Estate and out growers to increase cane yields.
- Increase area under cane by leasing and planting more cane in nucleus and out-growers region.
- Encourage farmers to embrace cane farming as a business through the company extension services on the latest technology in cane development.



**CPA MICHAEL WANJALA**

**MANAGING DIRECTOR**



**Nzoia Sugar Company Limited**  
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**VI. CORPORATE GOVERNANCE STATEMENT**

Corporate governance is the process and structure by which Companies are directed, controlled and held accountable in order to achieve long term value to shareholders taking cognizance of the interest of other stakeholders.

The Board of Directors of Nzoia Sugar Company Limited (hereinafter Nzoia Sugar Company Limited) is responsible for the governance of the company and is accountable to shareholders and stakeholders in ensuring that the Company complies with the laws and highest standards of business ethics and corporate governance. Accordingly, the Board attaches high importance to generally accepted corporate governance practices and has embraced the internationally developed principles and code of best practice of good corporate governance.

**Board of Directors**

The role and functions of the Chairman and the Managing Director are distinct and their respective responsibilities clearly defined. The Board comprises of eleven (11) Directors nine (9) of whom are non-executive directors including the Chairman. Alternate Directors for the parent ministry and National Treasury also sit in the Board. The Board defines the Company's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues.

In line with the provisions of Mwongozo code of conduct, the Board of Directors strived to ensure that the Company complies with the provisions of the constitution and all applicable laws, regulations, codes and applicable standards. The Board has put in place internal procedures and monitoring systems to promote compliance with strategic objectives of the Company and submit compliance reports on all statutory obligations to the respective Government Departments/Agencies within the specified timelines.

In further compliance with provisions of Mwongozo code of conduct, the Board did establish the requisite Board Committees chaired by members with requisite qualifications and experience (for such committees) so as to ensure that the overall strategic objectives of the Company are achieved.

During the period, all Board members were trained on Mwongozo and Corporate Governance so as to equip them with the requisite skills and tools for the effective Management of the Organization.

Except for direction and guidance on general policy, the Board delegates authority of its day-to-day business to Management through the Managing Director. The Board nonetheless is responsible for the stewardship of the Company and assumes responsibilities for effective control over the Company.

The Company, being a State Corporation, the Inspector General of State Corporations attends both Board and Board Committees for oversight and advisory purposes in accordance with the State Corporations Act.

The Company Secretary attends all Committee and Board meetings. Her role is to advise the Board on all corporate governance matters as well as prevailing statutory requirements coupled with taking minutes at Board meetings/functions.

Nzoia Sugar Company is established by and derives its authority and accountability from the State Corporations Act Cap 446 and the Company's Act Cap 486 of the laws of Kenya.

The Board of Directors, duly cognizant of its role in safeguarding shareholders' assets and ensuring a suitable return on investment, reaffirms its commitment to upholding policies and strategies that enhance transparency and accountability. The Board has a board charter that outlines the structure, duties, procedure and the standard of service delivery.

The company is committed to maintaining the highest standards of integrity, professionalism and business ethics in all its operations. The company has a code of ethics which gives senior management the responsibility of ensuring legal and statutory compliance. In addition, the Code deals with situations

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**CORPORATE GOVERNANCE STATEMENT.....Continued**

relating to best practices as well as those situations that may give rise to conflict of interest in the conduct of business.

**Board Meetings**

The Board holds meetings on a regular basis as per approved Board calendar. Special meetings are called when it is deemed necessary to do so in order to handle an urgent matter that cannot otherwise await a normal Board meeting.

**Committees of the Board**

The Board setup the following Board committees which meet under well defined terms of reference set by the Board. This was intended to facilitate efficient decision making of the Board in the discharge of its mandate and obligations.

**Business & Development Committee**

Mr. Stephen Kisaka	-	Director – Chair
Mr. Ignatius Wafula	-	Ag. Managing Director
Mr. Hillary Changwony	-	Director
Ms. Mary Makokha	-	Director
Ms. Anne Omodho	-	Director
Mr. Patrick Musumba	-	Director
Mr. Zakayo Magara	-	Alt. to PS (Min. of Agric. Livestock, Irrigation & Fisheries)
Ms. Theodorah Gichana	-	Rep. Inspector of State Corporations

**Finance & Establishment Committee**

Mr. Tom Ipomai	-	Director Chairman
Mr. Ignatius Wafula	-	Ag. Managing Director
Mr. Richard Njoba	-	Alt. Director (Fives Cail)
Mr. Patrick Musumba	-	Director
Mr. Hillary Changwony	-	Director
Ms. Mary Makokha	-	Director
Mr. Zakayo Magara	-	Alt. to PS (Min. of Agric. Livestock Irrigation & Fisheries)
Dr. Stephen Ikikii	-	Alt. to PS (The National Treasury & Planning)
Ms. Theodorah Gichana	-	Rep. Inspector of State Corporations

**Audit Committee**

Mrs Karen Kandie	-	IDB Capital (Chair)
Mr. Stephen Kisaka	-	Director
Mr. Ignatius Wafula	-	Ag. Managing Director
Ms. Anne A. Omodho	-	Director
Mr. Patrick Musumba	-	Director
Ms. Theodorah Gichana	-	Rep. Inspector of State Corporation

**Schedule of meetings held during the period**

Main Board	Ordinary	4
	Special	5
BDC	Ordinary	3
F & E	Ordinary	3
Audit	Ordinary	2
	Special	1



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**VII. MANAGEMENT DISCUSSION AND ANALYSIS**

**AGRICULTURE DEPARTMENT**

A summary of the achievements for the 12 months ending 30<sup>th</sup> June, 2019 were as follows:

*Table 1: Agriculture Department key operational indicators*

PERFORMANCE PARAMETERS	ACTUAL 12 MONTHS 2018/19			TARGET 12 MONTHS 2018/19			VARIANCE
	OG	N/E	TOTAL	OG	N/E	TOTAL	TOTAL
Area under cane (ha)	16,647	2,817	19,464	21,600	3,400	25,000	(5,536)
Cane Development (ha)	319.61	166.20	485.81	4,000	600	4,600	(4,114.19)
Fertilizer DAP (bags)	0	466	466	30,000	8,000	38,000	(37,534)
UREA (bags)	0	1,000	1,000	50,000	12,000	62,000	(61,000)
Mean cane Yield (TCH)	49.29	40.07	44.68	45.00	50.00	51.50	(6.82)

**i. Area Under Cane**

The total area under cane of 19,464 ha was below target due to reduced cane planting arising from inadequate funds for cane development and abandonments by farmers.

**ii. Cane Development**

The negative variance in cane development was due to financial constraints that limited land preparation and seed cane transport. The prolonged drought delayed planting of cane.

**iii. Fertilizers**

Cash flow challenges impacted negatively on fertilizer supply both in Nucleus estate and Out-growers.

**iv. Cane yield**

The overall cane target yield of 51.5 TCH was not achieved due to non-application of fertilizers and pesticide on time due to cash-flow constraints being experienced by the company and harvesting of young cane averaging 14 months.

**v. Way Forward**

The Company strives to timely procure fertilizers and herbicides, intensify cane planting in the out-growers regions, promptly pay farmers and allocate adequate resources for cane development and maintenance of the Nucleus estate.

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**MANAGEMENT DISCUSSION AND ANALYSIS.....Continued**

**FACTORY/PRODUCTION DEPARTMENTS**

In the period under review, the company milled 362,999.66 tons of cane against a target of 500,000 tons resulting to a negative variance of 137,000 tons of cane and produced 23,536.7 tons of sugar against a target of 37,821 tons giving a negative variance of 14,284 tons. The TC/TS averaged 15.36.

**FACTORY PERFORMANCE FOR FY 2018/2019**

Parameter	Actual	Target	Variance
Cane Milled (Tons)	362,999.66	500,000	-137,000
Sugar Bagged (Tons)	23,536.70	37,821	-14,284
TC/TS	15.36	13.22	-2.14
Capacity Utilization (%)	34.68	60.00	-25.32
Factory Time Efficiency	72.46	86.00	-13.54
Mill Extraction(%)	89.67	89.00	0.67
Bagasse Pol(%)	2.64	3.50	0.86
Cane preparation Index(%)	84.95	80.00	4.95
Purity drop	0.52	≤1.5	0.98
Pol in Cane(%)	8.95	9.60	-0.65
BHR(%)	79.76	90.00	-10.24
Filter Cake(%)	3.36	3.00	-0.36
Undetermined Losses(%)	1.59	2.00	0.41

**KEY CHALLENGES**

- i. Acute cane shortage
- ii. Milling cane with low Pol.
- iii. Poor performance by mud filters
- iv. Boilers 1, 2 and 3 tube leaks (delayed annual maintenance).
- v. Old pumps in process house
- vi. Milling young cane with excessive trash
- vii. Long cane stoppages leading to (staleness) excessive sucrose inversion at clarifiers/juice tanks.
- viii. Poor cane quality leading to high molasses production up to 3.81% on cane milled as opposed to a maximum of 3% on cane milled. Young cane deteriorates fast once it stays beyond 48 hours after harvesting.
- ix. Delayed annual maintenance by 3 years 7months weakening all stations across the factory leading to frequent breakdowns.



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**MANAGEMENT DISCUSSION AND ANALYSIS.....Continued**

**WAY FORWARD**

- i. The management contracted the rehabilitation of boiler 3 to further improve its inherent poor design and reduce the failure tendencies while improving its efficiency. This was being done but stalled due to lack of funds arising from acute cane shortage. All the boilers had been contracted for overdue re-tubing and refractory repairs. The contract has been cancelled and fresh contract is being sourced as the scope has changed since the earlier one was signed in 2017. Frequent tube leaks are being experienced. Lack of funds has delayed this exercise too.
- ii. The management is in the process of acquiring the mixed juice filter and rehabilitation of mud filter to restore the performance of this station. The contracts were awarded; rehabilitation of mud filters was completed on the run; mixed juice filter procurement stalled due to lack of funds.
- iii. The management has come up with an action plan on pump replacement and key equipment restoration across the process house to eliminate pump leaks, restore recoveries and related efficiencies. Most of the pumps have been delivered and installed. Those not delivered are awaiting funds availability.
- iv. The syrup clarifier will be commissioned when cane is available after OOC 2019 after which production of White sugar will commence, increasing our product range.
- v. Improve cane supply by continuing to pay the farmer first, with employees sharing whatever remains as a means of getting farmers' confidence and having sustainable supply.
- vi. To identify source of funding to enable us carry out annual maintenance starting July 2019.

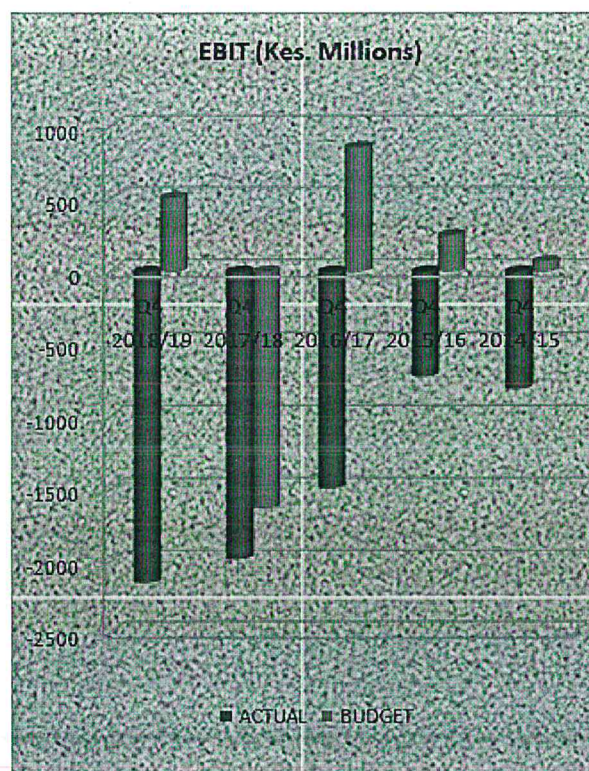
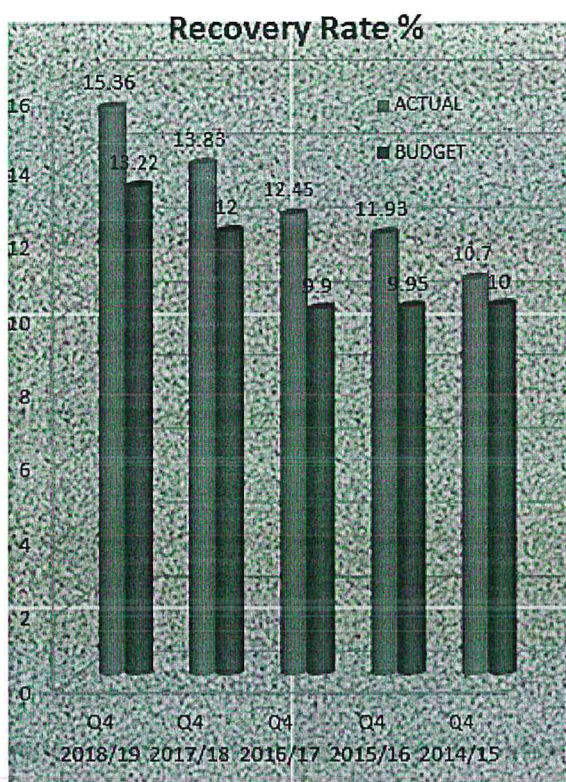
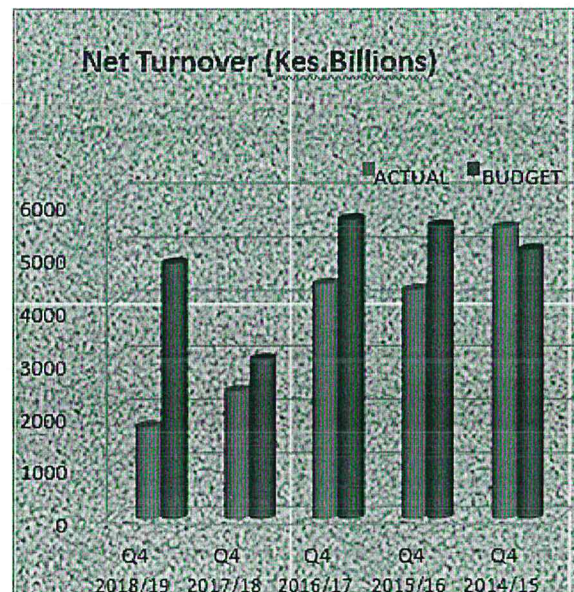
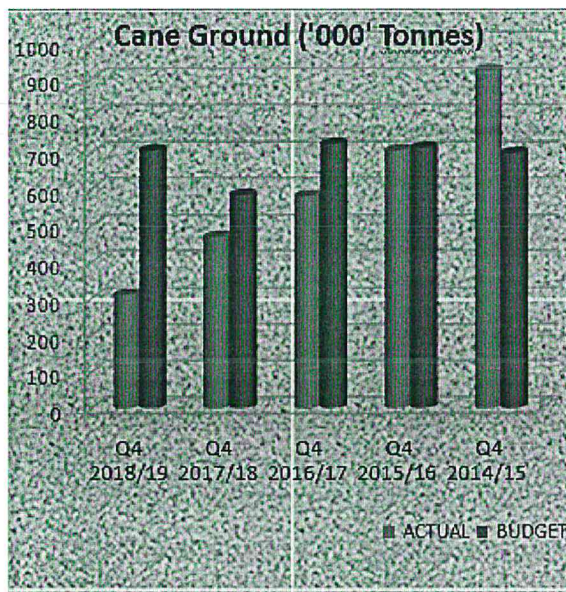
Addressing these issues without external capital injection may not be feasible in the short run and this has negatively impacted the company financial position. The factory has reached a point where no meaningful operations can take place due to excessive breakdowns associated with the delayed annual maintenance.



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**MANAGEMENT DISCUSSION AND ANALYSIS.....Continued**

**PERFORMANCE HIGHLIGHTS**





## **VIII. CORPORATE SOCIAL RESPONSIBILITY REPORT**

We believe that the future success of the company depends on the company focusing on the interests of the primary stakeholders, who include farmers, government, customers, suppliers, employees as well as the community.

Corporate Social Responsibility is a service or philanthropic activity associated with community development through which a company is able to enjoy a mutually beneficial relationship with the community around it. The company has a corporate social responsibility policy in place that guides the selection, approval and implementation process of all Corporate Social Responsibility projects.

During financial year 2018/2019, the following projects were undertaken: -

### **Education**

The company has continued to invest in the education sector and this has been underpinned by the recognition that a skilled and high impact talent pool is critical for Kenya's long term economic development. As a demonstration of the commitment to the education sector, the company has partnered with primary and secondary schools in the larger Bungoma County and the Nation as a whole and done the following:

- The company sponsored Douglas Wafula, son to the late Alfred Wafula who died in line of duty to continue learning at Milo Boys High School at a cost of KES.47,650.00.
- The company sponsored Jilvian Wabwile, daughter to the former slain employee Robert Simiyu to undertake third year studies at the cost of KES. 138,200.00 at Moi University.

### **Healthcare**

The company has continued to support the community by offering medical services to the community including provision of mother to child healthcare services and other medical services from the company clinic. The company has a VCT centre for counselling and testing for HIV/AIDS and this clinic is open to the community.

The company supported Beyond Zero Marathon, which is an initiative of the office of Her Excellency Margaret Kenyatta, the First Lady of the Republic of Kenya to the tune of KES.150,000.00

### **Environmental Sustainability**

The company continues to place safety at workplace as its first priority. The company has also conserved the environment by giving out tree seedlings for the community to plant in the annual tree planting exercises.

### **Youth development and sports**

- Nzoia Sugar Company is a full sponsor of Nzoia Sugar FC. The team currently participates in the Kenyan Premier League and finished at position 12<sup>th</sup> on the KPL standing with 39 points. The team has enhanced the image of the company locally and nationally through sports and the media.



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**IX. REPORT OF THE DIRECTORS**

The Directors present their report together with the audited financial statements of Nzoia Sugar Company Limited (the "company") for the year ended 30<sup>th</sup> June 2019, which shows its state of affairs.

**PRINCIPAL ACTIVITIES**

The principal activities of the company are the production and sale of sugar and other by products

**PRODUCTION**

The following are the comparative statistics of cane processed and sugar production for the last five years:

	Sugar bagged (Tonnes)	Cane milled (Tonnes)	TC:TS
2018/19	23,537	362,999	15.36
2017/18	33,858	469,651	13.83
2016/17	46,724	580,868	12.45
2015/16	59,147	706,173	11.90
2014/15	86,821	924,721	10.65

**RESULTS**

The results for the financial year ended 30<sup>th</sup> June 2019 are set out on pages 1 to 48.

	2019 KES 000'	2018 KES 000''
Turnover	1,829,643	2,369,175
Profit/Loss before Interest & Tax	<u>(2,285,864)</u>	<u>(2,693,482)</u>
<b>Profit/Loss after tax</b>	<b><u>(3,164,032)</u></b>	<b><u>(3,568,733)</u></b>

**DIVIDENDS**

The directors do not recommend a dividend in respect of the year (2018/19– KES Nil).

**DIRECTORS**

The current directors of the company are listed on page V

**AUDITORS**

The Auditor General is responsible for the statutory audit of the company's books of account in accordance with article 229 of the Constitution of Kenya and the Public Audit Act 2015, for the year ended June 30, 2019.

  
**Company Secretary**  
**Bungoma**

**Nzoia Sugar Company Limited**  
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**X. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and State Corporations Act Cap.446 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 that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenya Companies Act, and for such internal financial controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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, in conformity with International Financial Reporting Standards and in the manner required by the Kenya 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 Corporation 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 financial statements, as well as adequate systems of internal financial control.

As disclosed in note 3 to the financial statements, the directors acknowledge that the company's ability to continue with its operations as a going concern depends on continued financial support from its shareholders. The directors are confident that the company will successfully return to profitable operations in the near future. Accordingly, the directors consider the going concern assumption appropriate.

Approval of the financial statements

The Nzoia Sugar Company Limited Financial Statements were approved .....  
and signed on its behalf by:



.....  
**Hon. Joash Wamang'oli**  
**Chairman Board of Directors**

2019



.....  
**CPA Michael Wanjala**  
**Managing Director**

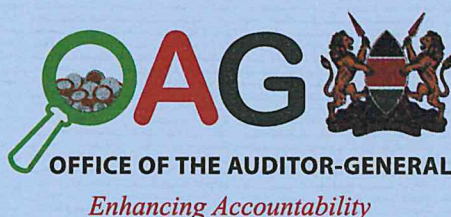
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**XI. REPORT OF INDEPENDENT AUDITORS**



# REPUBLIC OF KENYA

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**HEADQUARTERS**  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## REPORT OF THE AUDITOR-GENERAL ON NZOIA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

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### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Nzoia Sugar Company Limited set out on pages 1 to 45, which comprise of the statement of financial position as at 30 June, 2019, statement of profit or 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 accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. 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.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Nzoia Sugar Company Limited as at 30 June, 2019, 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 Kenya Companies Act, 2015 and the Public Finance Management Act, 2012.

#### Basis for Qualified Opinion

##### 1. Material Uncertainty Related to Going Concern

The statement of comprehensive income reflects operating loss of Kshs.3,168,791,000 (2018: loss of Kshs.3,568,733,000). As at 30 June, 2019 the Company had a shareholder funds deficit of Kshs.41,551,388,000 (2018: Kshs.38,382,596,000) while the current liabilities of Kshs.49,626,556,000 exceed current assets of Kshs1,294,843,000 by Kshs.48,331,713,000, demonstrating that the Company is unable to meet its financial obligations as and when they fall due. This state of affairs is indicative of an acute financial challenge facing the Company which raises significant doubts on the its ability to operate as a going concern.

The Company is therefore technically insolvent and its continued existence as a going concern is dependent upon the financial support from its creditors and the Government.



## **2. Property, Plant and Equipment**

As disclosed in Note 15 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.10,631,169,000. The following unsatisfactory observations were made:

### **2.1. Idle Plant Valuation**

The figure includes idle plants with carrying value of Kshs.295,697,000 based on a valuation carried out in June, 2015. The plants were acquired between 1990 and 1993 when the company undertook an expansion of the factory's cane crushing capacity from 3,000 tonnes of cane per day to 7,000 tonnes of cane per day. The expansion was financed by an international company and guaranteed by the Government of Kenya. The expansion program was not completed then and the acquired plant have been lying idle since acquisition and have not generated any income for the Company. Although the Management explained that the State Department for Public Works has given reserve prices for possible disposal of the idle plant, the written report by the Ministry was not availed for audit review. It was noted from the earlier valuation report that some of the items are in deplorable state and the Company has not recognised possible impairment charge on these assets which have been lying idle for over 29 years.

### **2.2. Installation of CCTV Surveillance System**

The figure includes work in progress of Kshs.4,333,000 relating to installation, testing and commissioning of CCTV surveillance system at a contract sum of Kshs.7,179,850. The work was inspected and a completion certificate issued on 29 November, 2018. However, Management did not provide supporting documents of items inspected and certified and their related costs. There were indications that the work was not completed based on the bills of quantities.

In the circumstances, it was not possible to confirm the valuation of property, plant and equipment amounting to Kshs.300,030,000 included in the property, plant and equipment in the statement of financial position as at 30 June, 2019.

## **3. Inventory**

As disclosed in Note 9 to the financial statements, the statement of financial position reflects inventory balance of Kshs.584,690,000. However, examination of records revealed the following unsatisfactory matters: -

### **3.1. Slow Moving and Unutilized Inventories**

The balance constitutes huge inventory amounting to Kshs.137,499,816 which have never been utilized. A review of the store's ledger cards for the factory store indicated that Management has continued to maintain idle stock. In particular, Management signed a contract with a local dealer for the supply of syrup clarification chemicals at a contract price of Kshs.21,300,324 on 30 March, 2016. The goods were delivered on



20 February, 2017 and inspected on 9 March, 2017. However, the chemicals were not utilized and expired by 20 May, 2018.

### **3.2. Uncleared Goods**

Further, the inventory balance includes uncleared goods worth Kshs.142,712,554 which had been held at the port of Mombasa awaiting clearance since 2017 with the charges having accumulated to Kshs.79,956,627 as at 30 June, 2019. Due to the long period that the goods have been held at the port, the charges are accumulating while the goods are subject to obsolescence. The Company is likely to fail to realise value for money on the expenditure as it continues to incur extra losses.

In the circumstances, it was not possible to confirm the accuracy, completeness and valuation of inventory of Kshs.280,212,370 included under the inventory reflected in the statement of financial position as at 30 June, 2019.

### **4. Unsupported Loan on Long Term Borrowings**

As disclosed in Note 26 to the financial statements, the statement of financial position reflects borrowings of Kshs.41,241,280,000. The balance includes Kshs.726,268,000 made up of Kshs.426,268,000 being direct payments to farmers for the year under review and Kshs.300,000,000 for 2017/2018 and prior years as detailed under Note 26(b) to the financial statements. The Company had received the loan from the Government of Kenya through the Ministry of Agriculture. However, Management did not provide a written loan agreement, setting out terms of the loan, for audit review.

In the circumstances, it was not possible to ascertain the accuracy, completeness and validity of the loan balance of Kshs.726,268,000 included in the borrowings in the statement of financial position as at 30 June, 2019.

### **5. Unsupported Deferred Income Taxation Liability**

As disclosed in Note 27 to the financial statements, the statement of financial position reflects deferred income taxation liability of Kshs.3,885,282,000. The figure remained unchanged from the 2017/2018 financial year. Management was in the process of engaging a tax consultant to compute the deferred tax liability. However, Management did not provide supporting documents for the figure.

In the circumstances, it was not possible to ascertain the accuracy, completeness and validity of the deferred income taxation liability of Kshs.3,885,282,000 reflected in the statement of financial position as at 30 June, 2019.

### **6. Unsupported Administrative Expenses**

As disclosed in Note 9 to the financial statements, the statement of profit or loss and other comprehensive income reflects administrative expenses balance of Kshs.2,065,167,000. The figure includes Directors' expenses of Kshs.29,404,000 which in turn includes Kshs.2,059,778 incurred on local travels comprising taxis and airfare. However,



Management did not avail supporting documents such as receipts, air tickets and boarding passes for audit review.

In the circumstances, it was not possible to ascertain the accuracy, completeness and validity of the administrative expenses of Kshs.2,059,778 included under the administrative expenses in the statement of profit or loss and other comprehensive income for the year ended 30 June, 2019.

## **7. Unsupported Provisions and Contingent Liabilities**

As disclosed in Note 34 to the financial statements, the statement of financial position reflects provisions and contingent liabilities of Kshs.121,200,200. However, Management did not provide independent confirmation statements or attestation from the Company's lawyers with regard to on-going litigations to ascertain the adequacy of the provisions and the impact, if any, on the financial statements.

In the circumstances, it was not possible to ascertain the adequacy and possible impact of provisions of Kshs.121,200,200 reflected in the statement of financial position as at 30 June, 2019.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Nzoia Sugar Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Unsupported Trade and other Receivables**

As disclosed in Note 20 to the financial statements, the statement of financial position reflects trade and other receivables balance of Kshs.61,656,000. Included in the figure

are advance payments to suppliers amounting to Kshs.7,461,274. However, Management did not support the advance payments with any contractual agreement. This is contrary to the Public Finance Management (National Government) Regulations 2015 section 98 (2) which provides that advance payment shall not be paid to suppliers of services and goods unless provided for in the contractual terms and conditions contained in a valid contract signed between the procuring entity and the supplier.

In the circumstances, the Company was in breach of the law.

## **2. Unpaid Salary and Wages**

A review of the Company's Human Resource records revealed that the Company had not paid its employees salaries from the month of March, 2019 to October, 2019 resulting into salary arrears of Kshs.356,847,031 and wages of Kshs.45,682,130 payable to permanent employees and casuals respectively.

According to section 41 C (2) of the Public Service Commission Human Resources Policy and Procedures Manual of May, 2016, all officers should be paid salary on monthly basis in Kenya currency through their respective bank accounts.

In the circumstances, the Company was in breach of the law.

## **3. Unutilized Investment Property**

As disclosed in Note 17 to the financial statements, the statement of financial position reflects investment of Kshs.250,000,000. The balance relates to a residential plot owned by the Company in Kileleshwa Estate, Nairobi under Registration and for which it has been paying an annual land rate of Kshs.112,600 from 2012. The house which is on the plot was last occupied seven (7) years ago at a monthly rent of Kshs.75,000. However, a review of the Company's internal audit report revealed that Management continues to incur land rates of Kshs.112,600 annually. The house has remained vacant resulting into cumulative loss of potential revenue amounting to Kshs.6,300,000.

Further, the report indicates that there was outstanding rent arrears balance of Kshs.1,080,000 owed by the previous tenant. This is in breach of section 139 (1) (b) of the Public Finance Management Regulation, 2015 which provides that an Accounting Officer shall take full responsibility and ensure that proper control systems exist for assets and that movement and conditions of assets can be tracked.

In the circumstances, I am unable to confirm whether Management utilized public resources in an effective way and that value for money has been derived from the amounts paid as land rates.

## **4. Failure to Remit Statutory Deductions**

As disclosed in Notes 28 and 29 to the financial statements, the statement of financial position reflects current liabilities of Kshs.8,561,170. The balance includes trade and other payables balance of Kshs.3,285,596,000 being tax penalties which the Company is

required to settle as a result of delayed remittance of taxes and other levies as detailed below:

<b>Description of Penalties</b>	<b>Amount Kshs.</b>
Balance b/f - Tax penalties 2017/18	2,524,266,000
Pay As You Earn (PAYE)- 2018/19	228,963,000
Value Added Tax (VAT) – 2018/19	532,367,000
<b>Total</b>	<b>3,285,596,000</b>

This is contrary to a requirement as stipulated by the respective laws that the Company should remit its Value Added Tax (VAT), and Pay as You Earn (PAYE) to the respective institutions.

Further, the figure includes outstanding sugar development levy of Kshs.856,603,000. This was contrary to the Sugar Act No.10 of 2001 which provides that every sugar company should remit 4% of the ex-factory price for locally produced sugar to the Sugar Board not later than the tenth day of the following month during which the levy was collected.

In addition, Regulation 145 (e) of the Public Finance Management (National Government) Regulations, 2015 asserts that any liability or expenditure which could have been avoided and need not have been incurred is a loss.

In the circumstances, the Company is in breach of the law.

## **5. Unremitted Retirement Benefits Deductions**

As disclosed in Note 29(a) to the financial statements, the Company had not remitted Kshs.201,993,000 to Staff Retirement Benefits Scheme Fund. This is contrary to section 2 of the Company's Retirement Benefits Scheme, 2007 which states that the main purpose of the scheme is to provide retirement benefits to the employees, where the members contribute 6% of their salary while the employer contributes 12% of the members' salary to the fund. Consequently, retiring staff are not likely to access their pension upon retirement and the continued operation of the retirement benefits scheme fund is doubtful.

In the circumstances, the Company was in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.



## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

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

### Basis for Conclusion

#### Long Outstanding Staff Receivables

As disclosed in Note 20 to the financial statements, the statement of financial position reflects a balance of Kshs.61,656,000 under trade and other receivables. The balance includes an amount of Kshs.34,114,000 in respect of staff receivables which in turn includes an amount of Kshs.8,862,097 held by former staff. This is contrary to the finance department policy manual that requires staff imprests be accounted for within 48 hours. Any unaccounted for imprest within the stipulated time will be recovered through the payroll. It also contravenes regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which provides that a holder of temporary imprests to account or surrender the imprests within seven (7) days after returning from duty.

Further, a review of the debtors' ageing analysis revealed that the above balance includes trade receivables amounting to Kshs.67,613,896 that have remained outstanding for a period of over 120 days. This is contrary to the finance department's policy manual, which provides that customers who fail to settle their accounts within the specified period will be given reminders each month for three months, thereafter debt collectors will be engaged to initiate legal recovery proceedings. Further, it states that only debts which are uncollectable after legal recovery proceedings will be recommended to the Board for write off. Management did not avail evidence on progress towards recovery of the debts.

I am therefore unable to confirm effectiveness in the implementation of internal controls and governance as designed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit so as to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, except for matters reported in the Basis for Qualified Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public

Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I report based on the audit, that: -

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. in my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

### **Responsibilities of Management and Board of Directors**

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of intention to liquidate the Company or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error,

and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229 (7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.



- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company's to cease as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company's to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**12 August, 2021**

**Nzoia Sugar Company Limited**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2019**

**XII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019**

		2019	2018
	Note	KES'000'	KES'000'
Revenue	4	1,829,643	2,369,175
Gains on Disposal of Non-Financial Assets	5	-	113
Other Income	6	31,375	38,638
Fair value gain/(loss) on biological assets	7	<u>307,736</u>	<u>233,305</u>
<b>TOTAL REVENUE</b>		<b>2,168,753</b>	<b>2,641,231</b>
Cost of sales	8	<u>(2,330,248)</u>	<u>(3,138,832)</u>
Gross profit		(161,494)	(497,601)
<b>OPERATING EXPENSES</b>			
Administrative expenses	9	(2,065,167)	(2,114,112)
Marketing and distribution costs	10	(3,004)	(14,465)
Depreciation of property, plant & machinery	15	(46,410)	(56,873)
Amortization of intangible Assets	16	(9,788)	(10,432)
<b>TOTAL OPERATING EXPENSES</b>		<b>(2,124,370)</b>	<b>(2,195,882)</b>
<b>OPERATING PROFIT/(LOSS)</b>	11	<b>(2,285,864)</b>	<b>(2,693,482)</b>
Finance income	12	7,624	8,793
Finance costs	13	<u>(885,792)</u>	<u>(884,044)</u>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>(3,164,032)</b>	<b>(3,568,733)</b>
Taxation credit/(charge)	14	=	=
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b><u>(3,164,032)</u></b>	<b><u>(3,568,733)</u></b>
<b>OTHER COMPREHENSIVE INCOME(LOSS)</b>		<b>(4,759)</b>	
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>(3,168,791)</u></b>	<b><u>(3,568,733)</u></b>

The notes set out on pages 5 to 43 form an integral part of these Financial Statements.

**Nzoia Sugar Company Limited**  
**Annual Reports and Financial Statements**  
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**XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

		2019 KES'000	2018 KES'000
<b>ASSETS</b>	<b>Note</b>		
<b>Non current assets</b>			
Property, plant and equipment	15	10,631,169	11,197,183
Intangible assets	16	181,508	191,397
Investment property	17	250,000	250,000
Out-growers balances	18	29,200	23,313
		<b>11,091,877</b>	<b>11,661,893</b>
<b>Current assets</b>			
Due from Out-growers	18	58,401	46,622
Inventories	19	584,690	577,326
Biological assets	7	538,978	367,697
Trade and other receivables	20	61,656	126,567
Short term deposits	21	47,000	47,000
Cash and bank balances	22	4,118	10,925
		<b>1,294,843</b>	<b>1,176,138</b>
<b>Total assets</b>		<b>12,386,720</b>	<b>12,838,031</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	23	543,000	543,000
Revaluation surplus	24	5,965,504	5,970,263
Retained earnings	25	(48,059,892)	(44,895,860)
<b>Shareholders' equity</b>		<b>(41,551,388)</b>	<b>(38,382,596)</b>
<b>Non current liabilities</b>			
Long term borrowings	26	426,268	300,000
Deferred income taxation liability	27	3,885,282	3,885,282
		<b>4,311,551</b>	<b>4,185,282</b>
<b>Current liabilities</b>			
Borrowings	26	40,815,011	39,577,342
Trade and other payables	28	8,561,170	7,185,681
Provident fund obligation	29 a	201,993	212,627
Defined benefit scheme liability	29 b	45	45
Provision for staff leave pay	30	47,612	58,923
Taxation payable	14	726	726
		<b>49,626,556</b>	<b>47,035,343</b>
<b>Total equity and liabilities</b>		<b>12,386,720</b>	<b>12,838,031</b>

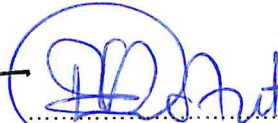
The Financial Statements set out on pages 1 to 4 were approved and authorised for issue by the board of directors on..... 2019 and were signed on its behalf by:



Hon. Joash Wamang'oli  
Chairman Board of Directors



CPA Michael Wanjala  
Managing Director



CPA Ezron Kotut  
Finance Manager



**Nzoia Sugar Company Limited**  
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**XIV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019**

	Share capital KES'000	Revaluation surplus KES'000	Retained deficit KES'000	Total KES'000
At 1 July 2017	543,000	6,088,752	(41,327,127)	(34,695,375)
Total comprehensive loss	-	(118,489)	(3,568,733)	(3,687,222)
At 30 June 2018	543,000	5,970,263	(44,895,860)	(38,382,597)
Total comprehensive profit( loss)	-	(4,759)	(3,164,032)	(3,168,791)
<b>At 30 June 2019</b>	<b>543,000</b>	<b>5,965,504</b>	<b>(48,059,892)</b>	<b>(41,551,388)</b>

The revaluation surplus represents the net cumulative surplus arising from revaluation of property, plant and equipment net of reclassification, adjustments, depreciation and deferred taxation. The revaluation surplus is non-distributable.

**Nzoia Sugar Company Limited**  
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**XV. STATEMENT OF CASH FLOWS AS AT 30 JUNE 2019**

	<b>Note</b>	<b>2019 KES'000</b>	<b>2018 KES'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	31 (a)	(257,277)	(52,678)
Interest received	12	7,624	8,793
Interest paid		-	-
Taxation paid	14	-	-
		<hr/>	<hr/>
Net cash generated from/(used in) operating activities		(249,653)	(43,885)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	15	(5,362)	(119,849)
Additions to biological assets	7	(178,061)	(169,122)
Additions to intangible assets	16	-	(1,630)
		<hr/>	<hr/>
Net cash used in investing activities		(183,423)	(290,601)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loans received	26	426,268	300,000
Loans repaid	26	-	-
		<hr/>	<hr/>
Net cash (used in)/generated from financing activities		426,268	300,000
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		(6,808)	(34,486)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<hr/>	<hr/>
		57,925	92,411
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	31(b)	<hr/>	<hr/>
		51,118	57,925
		=====	=====

**XVI. NOTES TO THE FINANCIAL STATEMENTS**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES**

**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

For the Kenyan Companies Act reporting purposes, in these financial statements, the balance sheet is represented by/equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

**(b) Application of new and revised International Financial Reporting Standards (IFRSs)**

**(i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2019***

- |   |   |
|---|---|
| Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses | The amendments to IAS 12 Income Taxes clarify the following aspects: <ul style="list-style-type: none"><li>• Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</li><li>• The carrying amount of an asset does not limit the estimation of probable future taxable profits.</li><li>• Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.</li><li>• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</li></ul> |
|---|---|

The application of these amendments has had no impact on the Company's financial statements as the Company already assesses the sufficiency of the future taxable profits in a way that is consistent with these amendments.

**(ii) *New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019***

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2019, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below :

**IFRS 9 Financial Instruments ("IFRS 9")**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include



**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES (Continued)**

requirements for the classification and measurement of financial liabilities and for de-recognition and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

- a) impairment requirements for financial assets; and
- b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

**Key requirements of IFRS 9:**

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1. ACCOUNTING POLICIES (Continued)**

Based on an analysis of the Company's financial assets and financial liabilities as at 30 June 2019 on the basis of the facts and circumstances that exist at that date, the Directors have performed a preliminary assessment of the impact of IFRS 9 to the Company's financial statements as follows:

***Classification and measurement***

All the financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

***Impairment***

Financial assets measured at amortised cost, listed redeemable notes that will be carried at FVTOCI under IFRS 9, finance lease receivables, amounts due from customer under contracts, and financial guarantee contracts will be subject to the impairment provisions of IFRS 9.

The Company expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables, as required or permitted by IFRS 15. The Company does not hold any listed redeemable notes, finance lease receivables, amounts due from customer under construction contracts or financial guarantee contracts.

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the trade and other receivables balances and are currently assessing the potential impact.

***Hedge accounting***

As the new hedge accounting requirements will align more closely with the Company's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Company's current hedging relationships indicates that they will qualify as continuing hedging relationships upon the application of IFRS 9.

The Directors are assessing the potential impact on the financial statements resulting from the application of these changes. The new standard is expected to be applied for the year beginning 1 July 2019.

**(b) Application of new and revised International Financial Reporting Standards (IFRSs) and IFRICs (Continued)**

**(iii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019 (Continued)**

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.



**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1. ACCOUNTING POLICIES (Continued)**

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to identification of performance obligations, principal versus agent considerations as well as licensing application guidance.

The Company recognises revenue mainly from sale of sugar. Based on preliminary assessment, the Directors do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance. The new standard is expected to be applied for the year beginning 1 July 2019.

**IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right of use asset and a corresponding liability be recognised for all lessees (i.e. on balance sheet) except for short term leases and leases of low value assets.

The right of use is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into principal and interest portions which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward lessor accounting treatment in IAS 17 and continues to require a lessor to classify a lease as either an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.

The Company is assessing the potential impact on the financial statements resulting from the application of these changes.



**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES (Continued)**

**(b) Application of new and revised International Financial Reporting Standards (IFRSs) and IFRICs (Continued)**

**(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019 (Continued)**

**IFRS 17 Insurance Contracts**

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates.

The entity:

- (a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
- (b) chooses where to present the effects of some changes in discount rates - either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 *Insurance Contracts*. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

The adoption of this standard will not have an impact on the consolidated and company financial statements since the Company does not issue insurance contracts.

**Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions**

**The amendments clarify the following:**

- (i) In estimating the fair value of a cash settled share based payment, the accounting for the effects of vesting and non vesting conditions should follow the same approach as for equity settled share-based payments.
- (ii) Where tax law or regulation require an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES (Continued)**

**(b) Application of new and revised International Financial Reporting Standards (IFRSs) and IFRICs (Continued)**

**(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019 (Continued)**

**IFRS 17 Insurance Contracts (Continued)**

(iii) A modification of share based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

- The original liability is derecognised;
- The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to modification date; and
- Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

**(b) Application of new and revised International Financial Reporting Standards (IFRSs) and IFRICs (Continued)**

**(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019 (Continued)**

**Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (Continued)**

The Directors do not anticipate that the application of the amendments in future will have a significant impact on the financial statements as the Company does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

**IFRIC 22 Foreign Currency Transactions and Advance Consideration**

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. (e.g. a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transactions is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Directors do not anticipate that the application of the amendments in the future will have an impact on the financial statements as the Company already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

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**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES (Continued)**

**(b) Application of new and revised International Financial Reporting Standards (IFRSs) and IFRICs (Continued)**

**(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019 (Continued)**

**IFRS 17 Insurance Contracts (Continued)**

**IFRIC 23 Uncertainty over Income Tax Treatments**

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The Company is assessing the potential impact on the financial statements resulting from the application of these changes.

**(ii) New and revised IFRSs in issue but not yet effective for the year ended 30 June 2019 (Continued)**

**Annual Improvements to IFRS Standards 2015-2017 Cycle**

The Annual Improvements to IFRS Standards 2015-2017 cycle makes amendments to the following standards:

- IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The Directors do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

**(iii) Early adoption of standards)**

The Company did not early adopt new or amended standards in the period ended 30 June 2019.



**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES (Continued)**

**Basis of preparation**

The financial statements have been prepared on the historical cost basis of accounting as modified to include the revaluation of certain assets. The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous years and are set out below:

**Revenue recognition**

*(i) Sale of goods*

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recorded net of estimated customer returns, rebates and other similar allowances. Revenue from the sale of sugar and molasses is recognised when all the following conditions are satisfied and is stated net of Value Added Tax, excise duty and discounts where applicable:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

*(ii) Interest income*

Interest income is recognised when it is probable that the economic benefits will flow to the company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

*(iii) Other income*

All other income earned by the company is recognised on the accruals basis.

**Expense recognition**

The company records expenses when they are incurred, meaning when the goods are received or the services are provided, whether or not an invoice has been received or payment has been made.

**Foreign currencies**

In preparing the financial statements of the company, transactions in currencies other than its functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates

**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES (Continued)**

prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

**Taxation**

Income taxation expense represents the sum of current taxation and deferred taxation.

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred income 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. Currently enacted tax rates are used to determine deferred income taxation.

**Property, plant and equipment**

Property, plant and equipment are initially recorded at cost. All property, plant and equipment are subsequently shown at their revalued amounts based on valuations by external independent valuers, less accumulated depreciation and any accumulated impairment losses. Such valuation is carried out at periodic intervals, usually after every five years.

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

The carrying values of property, plant and equipment are reviewed annually and adjusted for impairment where it is considered necessary.

Any revaluation increase arising on the revaluation is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES (Continued)**

Depreciation is calculated on the reducing balance method to write off the cost or the revalued amount of each asset to its estimated residual value over its estimated useful life. The annual rates used are:

Land development	Nil
Buildings	5% - 10%
Factory plant and machinery	10%
Heavy mobile machinery and trailers	15% - 35%
Motor vehicles	25%
Computer systems	30%
Water and electrical installations	15%
Other equipment and fixtures	15%

The annual depreciation on the revaluation surplus element of property, plant and equipment is transferred from the revaluation surplus to retained earnings.

**Inventories**

Finished sugar and molasses inventories are stated at the lower of production cost and net realisable value. Production cost comprises expenditure directly incurred in the manufacturing process and an allocation of normal production overheads attributable to the process. Net realisable value represents the estimated selling price less all estimated costs of completion and the estimated costs necessary to make the sale.

Spares, fertilisers, chemicals and other consumable stores are stated at cost net of provisions for impairment where applicable. Cost is calculated on the weighted average cost basis and includes the purchase price, import duties and other taxes (other than those subsequently recoverable by the company from the taxation authorities), and transport, handling and other costs directly attributable to the acquisition of the item.

**Intangible assets**

Computer software costs are recognised as assets and are stated at cost less accumulated amortisation. The costs are amortised on the straight line basis over the expected useful lives not exceeding a period of three years.

**Biological assets**

Biological assets (cane plantations) and agricultural produce (harvested cane) are stated at their fair values less estimated costs to sale.

The fair value of growing cane is determined based on the present value of expected net cash flows. The fair value of harvested cane is determined based on the prices of cane existing in the market less estimated point of sale costs

Immature growing cane is valued at cost up to cane age from 0 – 9 months.



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**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES (Continued)**

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the company as a lessee. All other leases are classified as operating leases.

When a lease includes land and buildings elements, the company assesses the classification of each element as either a finance lease or an operating lease. In determining classification of the land element, an important consideration is that land normally has an indefinite economic life. Therefore the finance lease or operating lease classification of the land is considered a critical area of judgment. See note 2 to these financial statements.

**The company as lessor**

Assets held under finance leases are recognized as assets of the company at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the profit and loss account over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

*The company as lessee*

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

**Cash and cash equivalents**

For the purpose of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

**Financial instruments**

Financial assets and financial liabilities are recognized in the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument.

**Financial assets**

**Classification**

The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held-to-maturity assets; and, available-for-sale assets. Management determines the appropriate classification of its financial assets at initial recognition.

**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES (Continued)**

*Financial assets at fair value through profit or loss*

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable. Bad debts are written off when all reasonable steps to recover them have failed. Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in number of delayed payments in the portfolio past average credit period as well as observable changes in national or economic conditions that correlate with default on receivables. The company's trade and other receivables as well as bank balances fall under this category.

*Held to maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available-for-sale. The collateral and the term deposits fall under this category.

*Available-for-sale financial assets*

This category represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held-to-maturity.

**Recognition**

Financial assets are initially recognized at fair value plus directly attributable transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are dealt with in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income and accumulated in equity, until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss.

**Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

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**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES (Continued)**

**Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or 'other financial liabilities. Financial liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expire.

*Other financial liabilities*

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of directly attributable transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The company's key other financial liabilities are:

*Borrowings*

Interest bearing loans are recorded at the proceeds received, net of direct costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

*Trade and other payables*

Trade and other payables are stated at their nominal value which approximates amortised cost.

**Impairment**

At the reporting date, the company reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised through profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately through profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Employee benefits**

*Defined benefit scheme*

The company operates a defined benefit post-employment scheme for eligible non Unionisable employees. The scheme was closed to new entrants with effect from 1 July 2007, following the setting up of a new defined contribution scheme. The assets of the scheme are held and administered independently of the company's assets.



**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**1 ACCOUNTING POLICIES (Continued)**

The accrued (past service) liability in respect of each in-service Scheme member is taken as the present value of all benefits accrued as at the reporting date based on Pensionable Service to 30 June 2007 and Pensionable Salary as at 30 June 2007 revalued at 5% per annum compound, subject to a minimum of the accumulated contributions paid by and in respect of each member with interest to the valuation date. The accrued liability in respect of pensioners is taken as the present value of the expected future pension payments. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The net retirement benefit obligation represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

*Defined contribution schemes*

The company operates a defined contribution provident fund for eligible Unionisable employees. The fund is administered independently of the company's assets. It is funded by contributions from the company and employees. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The company's contributions to the fund are charged to profit or loss in the year to which they relate.

The company and its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme. The company's obligation is limited to a specified contribution per employee per month. Currently, the contribution is limited to a maximum of KES 200 per employee per month. The company's contributions are charged through profit or loss in the year to which they relate.

*Provisions for staff leave pay*

A provision is made to recognise staff entitlements in respect of annual leave not taken as at the end of the financial year.

**Dividends**

Dividends on ordinary shares are charged to equity in the period in which they are declared and appropriately authorized.

**Comparatives**

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

**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY IN APPLYING THE ENTITY'S ACCOUNTING POLICIES**

In the process of applying the company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The judgments, estimates and associated assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods. These are dealt with below:

**(i) Critical judgments in applying the company's accounting policies**

*Held to maturity investments*

The company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity financial assets. This classification requires significant judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to keep these assets to maturity, for example selling a more than insignificant amount close to maturity, it will be required to classify the entire class as available-for-sale. The assets would therefore have to be measured at fair value and not amortised cost with the difference arising from this change in valuation being a corresponding entry to a fair value reserve in shareholders' equity.

*Classification of leases of land and buildings as finance or operating leases*

At the inception of each lease of land or building, the company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (Continued)**

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
  - gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
  - the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.
- **Key sources of estimation and uncertainty**

*Biological assets (unharvested cane)*

In determining the fair value of biological assets, management uses estimates based on historical data relating to yields and prices of sugar. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce potential differences between estimates and actual experience. The significant assumptions used are set out in note 13.

*Property, plant and equipment and intangible assets*

Critical estimates are made by the management in determining the useful lives of property, plant and equipment and intangible assets. This is the basis on which the depreciation and amortization rates applied on property, plant and equipment and intangible assets respectively are determined.

*Impairment*

At the reporting date, the company reviews the carrying amounts of its assets to determine whether there is any objective evidence that those assets have suffered an impairment loss. If any such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

*Contingent liabilities*

The company is exposed to various contingent liabilities in the normal course of business. Management evaluates the status of these exposures on a regular basis to assess the probability of the company incurring related liabilities. However, provisions are only made in the financial statements where, based on the management's evaluation, a present obligation has been established.



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**NOTES TO THE FINANCIAL STATEMENTS.....Continued**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2019**

**3 GOING CONCERN**

At 30 June 2019, the company had a shareholders' deficit of KES 41,551,388 (2018 - KES 38,382,596) and current liabilities exceeded current assets by KES 48,331,713 (2018 - KES. 45,859,205). This situation indicates the existence of a material uncertainty which may cast doubt on the company's ability to continue as a going concern.

The directors have assumed that the Government of Kenya (GOK) and Agriculture Food and Fisheries Authority will not demand for the settlement of the outstanding loan amounts. Should the Government of Kenya and the Agriculture Food and Fisheries Authority demand for the settlement of their net loans, adjustments will be required to restate the assets to their realisable values, to reclassify non-current assets and long-term liabilities to current liabilities and to provide for any further losses and liabilities that may arise.

As noted in a report presented to parliament, the cabinet has prepared a proposal for the write off of all Government of Kenya loans and accrued interest, taxes and related penalties. There are also plans to privatize the Company which will include restructuring of the Company and bringing new investors on board.

In view of the foregoing the Directors consider it appropriate to prepare the financial statements on going concern basis.

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**NOTES TO THE FINANCIAL STATEMENTS**

	2019 KES'000	2018 KES'000
<b>4 REVENUE ANALYSIS</b>		
Gross sales	2,122,385	2,748,248
Less: Sugar Development Levy	-	-
Less: Value Added Tax	(292,742)	(379,068)
	<hr/>	<hr/>
Net sales	1,829,643	2,369,175
	=====	=====
<b>Net sales analysed as follows:</b>		
Sugar sales	1,712,079	2,172,315
Molasses sales	117,564	196,860
	<hr/>	<hr/>
	1,829,643	2,369,175
	=====	=====
 <b>5. GAINS ON DISPOSAL OF NON-FINANCIAL ASSETS</b>		
Disposal of Motor vehicles	-	113
	<hr/>	<hr/>
	-	113
	=====	=====
No disposal was made during the financial year 2018/2019		
 <b>6. OTHER INCOMES</b>		
Rental income	6,184	898
Miscellaneous Receipts	15,819	6,435
Nita Recoveries	-	795
Company Machine Fleets	9,372	30,509
	<hr/>	<hr/>
	31,375	38,638
	=====	=====

**Nzoia Sugar Company Limited**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	2019 KES'000	2018 KES'000
<b>7 BIOLOGICAL ASSETS</b>		
At beginning of the year	367,698	342,721
- Additions	178,060	169,122
Decrease due to harvest	<u>(314,515)</u>	<u>(377,450)</u>
As restated	231,242	134,393
 (Loss)/gain arising from changes in fair value attributable to physical changes	307,736	273,994
Loss)/gain arising from changes in fair value attributable to price changes	-	(40,689)
 Fair value gain/(loss) during the year	<u>307,736</u>	<u>233,305</u>
 At the end of the year	<u>538,978</u> =====	<u>367,697</u> =====

In determining the present value of expected net cash flows, the company has not discounted the cash flows as standing cane will mature within the next reporting period and therefore the impact of time value of money on estimated future cash flows is not significant.

**8. COST OF SALES**

	2019 KES'000	2018 KES'000
Opening stock raw material-Cane	-	-
Cane purchased -N/Estate	308,418	469,760
-O/G	1,045,420	1,383,325
<b>Total cane received</b>	1,353,839	1,853,085
Raw materials available for crushing	1,353,839	1,853,085
Closing stock raw materials	(2,788)	-
<b>Cost of cane ground</b>	1,351,051	1,853,085
Production - Direct labour	124,890	141,657
- Direct Expenses	55,169	88,123
<b>Total Direct expenses</b>	180,058	229,780
<b>Prime costs</b>	1,531,110	2,082,865
Factory -Indirect labour	175,233	204,687
-Indirect Expenses	128,842	230,357
-Depreciation	510,247	580,279
<b>Total indirect costs</b>	814,322	1,015,323
<b>Factory cost of production</b>	2,345,432	3,098,187
Add: Opening work in progress	33,984	12,106
Less: Closing work in progress	(49,047)	(33,984)
	2,330,369	3,076,309
<b>Factory cost of completed goods</b>		
Add: Opening stock Finished goods	950	63,473
<b>Goods available for sale</b>	2,331,319	3,139,782
Less: Closing stock Finished goods	(1,071)	(950)
<b>Cost of sales</b>	<u>2,330,248</u>	<u>3,138,832</u>



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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	<b>2019</b>	<b>2018</b>
	<b>KES'000</b>	<b>KES'000</b>
<b>9 (a) ADMINISTRATIVE EXPENSES</b>		
Staff costs	929,755	934,880
Other costs	74,961	89,877
Legal and professional fees	9,720	23,287
Corporate social responsibility	387	4,353
Medical services	19,425	29,743
Travelling	17,069	39,973
Security	299	748
Books & Periodicals	238	237
Directors expenses	29,404	42,721
Honorarium	743	663
Repairs and maintenance	6,674	15,599
Rent and rates	17,868	19,082
Insurance	52,601	68,529
Cane safety expense	1,633	9,076
Bank charges	2,668	3,275
Contracted services	35,265	43,874
Telephones and communications	5,595	4,087
Audit fees	2,205	7,000
Stationery	4,925	438
Contingency	-	73,200
Donations	-	2,029
Fuel and lubricants	39,573	56,606
Motor vehicle running	19,376	2,245
Loss on disposal of fixed assets	-	-
Foreign Exchange Differences	33,454	1,148
Tax penalties	761,330	641,442
	<b>2,065,167</b>	<b>2,114,112</b>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	2019	2018
	KES'000	KES'000
<b>9(b) STAFF COSTS</b>		
Salaries and allowances	810,921	747,301
Bonus	-	-
Pension - defined contribution scheme	50,269	57,240
Provident fund	-	-
Staff overtime	907	41,741
Staff training	1,885	3,023
Casual labour	59,795	75,862
Other staff costs	1,231	4,377
Staff gratuity provision	-	-
Pension - statutory defined contribution scheme	4,747	5,334
Defined benefit scheme credit (note 18(b))	-	-
	<u>929,755</u>	<u>934,880</u>
	=====	=====

**The average number of employees at the end of the year was:**

Permanent employees-Management	319	326
Permanent employees-Unionisable	618	691
Temporary and contract employees	1,788	1,490

**10. MARKETING AND DISTRIBUTION COSTS**

Salaries and wages of sales personnel		
Advertisement and promotional expenses	2,123	13,163
Other Selling and distribution costs	882	1,302
	<u>3,004</u>	<u>14,465</u>
	=====	=====

**11. LOSS BEFORE TAXATION**

Loss before taxation is arrived at after:

**Charging:**

Staff costs (note 9 b)	929,755	934,880
Depreciation of property, plant and equipment (note 15)	556,657	624,143
Amortisation of intangible assets (note 16)	9,788	10,432
Directors' emoluments - Fees	-	-
- Other	-	-
Directors' expenses	29,404	42,721
Auditors' remuneration	2,205	7,000
Bad and doubtful debts	-	-
Profit(loss) on disposal of assets	-	(113)
Loss (Gain) on foreign exchange	33,454	(1,148)
Interest receivable	(7,624)	(8,793)
	<u>-</u>	<u>-</u>
	=====	=====

**Nzoia Sugar Company Limited**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	2019	2018
	KES'000	KES'000
<b>12 FINANCE INCOME</b>		
Interest income:		
On farmers balances	3,860	-
On deposits with financial institutions	2,904	7,832
On staff loans	860	962
	<u>7,624</u>	<u>8,793</u>
	=====	=====

The interest income on farmers' balances relates to the interest the company charges farmers in relation to credit advanced for farm inputs. The company recovers these amounts from the amounts payable to farmers on harvested cane.

	2019	2018
	KES'000	KES'000
<b>13 FINANCE COSTS</b>		
Interest expense	885,792	884,044
	<u>=====</u>	<u>=====</u>

	2019	2018
	KES'000	KES'000
<b>14 TAXATION</b>		
(a) Taxation charge/(credit)		
Current taxation based on the adjusted profit for the year at 30% - current year		-
Deferred taxation credit (note 18)	-	-
Prior year under provision of taxation recoverable		-
	<u>-</u>	<u>-</u>
	=====	=====
(b) Reconciliation of expected tax based on loss before taxation charge/(credit)		
Loss before taxation	(3,568,733)	(3,568,733)
	<u>=====</u>	<u>=====</u>
(c) Taxation recoverable		
At beginning of the year	(726)	(726)
Paid in the year	-	-
Charge for the year	-	-
Prior year under provision of taxation recoverable		-
	<u>(726)</u>	<u>(726)</u>
	=====	=====
At end of year	(726)	(726)
	<u>=====</u>	<u>=====</u>



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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land	Factory building	Residential & school buildings	Plant & machinery	Tractors, trailers & heavy vehicles	Cars & motor cycles	Furniture, fittings & equipment	Computer system	Factory tools & implements	Water & electricity installation	Cane Roots	Capital WIP KES '000	Total KES '000
<b>COST OR VALUATION</b>	<b>KES '000</b>	<b>KES '000</b>	<b>KES '000</b>	<b>KES '000</b>	<b>KES '000</b>	<b>KES '000</b>	<b>KES '000</b>	<b>KES '000</b>	<b>KES '000</b>	<b>KES '000</b>			
At 1 July 2017	5,800,339	662,123	100,771	5,388,453	363,193	105,781	39,740	84,050	16,194	119,204	63,832	734,304	13,497,984
Additions	-	634	-	13,263	11,577	-	3,992	1,300	14,188	-	-	74,894	119,848
Revaluation	-	-	-	-	-	(540)	-	-	-	-	-	(363,148)	(363,688)
Transfer	-	19,145	-	241,896	-	-	-	-	-	-	-	(261,041)	-
Disposals	-	-	-	-	-	(970)	-	-	-	-	-	-	(970)
Transfer to intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-
At 30 June 2018	5,800,339	681,902	100,771	5,643,612	374,770	104,271	43,732	85,350	30,382	119,204	63,832	205,009	13,253,174
At 1 July 2018	5,800,339	681,902	100,771	5,643,612	374,770	104,271	43,732	85,350	30,382	119,204	63,832	205,009	13,253,174
Additions	-	-	-	-	-	-	579	450	-	-	-	4,333	5,362
Revaluation	(1,739)	-	-	-	(2,100)	(920)	-	-	-	-	-	-	(4,759)
Transfer	-	4,244	(3)	-	6,600	310	-	-	80	-	-	-	11,231
Reclassification	-	(122,782)	122,782	-	-	-	-	-	(4,244)	-	-	-	(4,244)
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	-
At 30 June 2019	5,798,600	563,364	223,550	5,643,612	379,270	103,662	44,311	85,801	26,218	119,204	63,832	209,342	13,260,764

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**15 PROPERTY, PLANT AND EQUIPMENT (Continued)**

	Leasehold land	Factory building	Residential & school building	Plant & machinery	Trailers & heavy vehicles	Cars & motor cycles	Furniture, fittings & equipment	Computer Hardware	Factory tools & implements	Water & electricity installation	Cane Roots	Capital WIP	Total
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000
<b>DEPRECIATION</b>													
At 1 July 2017	-	102,327	21,797	990,805	187,049	43,520	9,887	18,763	2,646	33,080	18,339	-	1,428,213
Charge for the year	-	46,104	10,088	465,221	56,035	15,188	5,076	9,988	3,524	12,919	-	-	688,934
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	(3,666)
At 30 June 2018	-	148,431	31,885	1,456,026	243,084	58,708	14,963	28,751	6,170	45,999	18,339	-	2,052,356
At 1 July 2018	-	-	-	597	3,509	(470)	-	-	-	-	18,339	-	21,975
Restated depreciation	-	-	-	-	(990)	(399)	-	-	-	-	-	-	(1,233)
Revaluation	-	41,493	9,583	418,699	39,074	11,356	4,402	8,557	3,007	10,981	9,504	-	556,657
Charge for the year	-	-	-	-	-	-	-	-	-	-	-	-	-
At 30 June 2019	-	189,924	41,468	1,875,322	284,677	69,195	19,366	37,309	9,177	56,979	46,182	-	2,629,599
<b>NET BOOK VALUE (Valuation)</b>													
At 30 June 2019	5,798,600	373,440	182,083	3,768,289	94,593	34,467	24,945	48,492	17,041	62,226	17,650	209,342	10,631,169
At 30 June 2018	5,800,339	543,839	62,759	4,186,988	128,176	46,034	28,768	56,600	19,968	73,207	45,493	205,009	11,197,183

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**15 PROPERTY, PLANT AND EQUIPMENT (Continued)**

Property, plant and equipment were revalued on 30 June 2015, by Real Appraisal Limited. Assets were revalued using the depreciated replacement cost method.

Capital work in progress mainly represents expenditure on incomplete factory works that were in progress at the end of the reporting period.

In 1977, the company was granted leasehold land registration East Bukusu/North Sang'alo/1904, East Bukusu/East Sang'alo/1444 and Ndivisi/Khalumuli/1459 and a 50-year land grant for land reference 4857/64 with effect from April 2002 from the Government of Kenya. In 2015, the leasehold land was valued at KES 6,028,600,000.

**16 INTANGIBLE ASSETS**

	2019 KES'000	2018 KES'000
<b>COST</b>		
At 1 July	237,264	235,634
Revaluation	(6,990)	1,630
Transfer from capital WIP		-
	<u>230,274</u>	<u>237,264</u>
<b>AMORTISATION</b>		
At 1 July	45,867	35,223
Depreciation	(6,889)	
Charge for the year	9,788	10,432
	<u>48,766</u>	<u>45,867</u>
At 30 June		
<b>NET BOOK VALUE</b>	<u>181,508</u>	<u>191,397</u>
	=====	=====

Intangible assets represent computer software costs, ERP software and antivirus software accounted as per IAS 38.

**17 INVESTMENT PROPERTY**

At fair value:

At beginning of year	250,000	250,000
Fair value gain	-	-
	<u>250,000</u>	<u>250,000</u>
	=====	=====
At end of year		

Locations and details of the investment property are LR No.4857/64/Kileleshwa in Nairobi area.



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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	<b>2019</b> <b>KES'000</b>	<b>2018</b> <b>KES'000</b>
<b>18 DUES FROM OUTGROWERS</b>		
Due from out-growers	392,620	396,324
Less: provision for doubtful debts	(305,018)	(326,391)
	<u>87,601</u>	<u>69,933</u>
	=====	=====
Due within 1 year	58,401	46,620
After 1 year	29,200	23,313
	<u>87,601</u>	<u>69,933</u>
	=====	=====

Due from outgrowers relates to credit advanced to farmers towards farm inputs. The cane planted acts as collateral for the amount advanced. The cane plants take a maximum of 18 months to harvest.

	<b>2019</b> <b>KES'000</b>	<b>2018</b> <b>KES'000</b>
<b>19 INVENTORIES</b>		
Sugar and molasses	1,072	950
Sugar in process	49,047	33,984
Raw materials	2,788	-
Consumables	531,783	542,392
	<u>584,690</u>	<u>577,326</u>
	=====	=====
	<b>2019</b>	<b>2018</b>
	<b>KES'000</b>	<b>KES'000</b>
<b>20 TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	24,914	24,914
Less provision for doubtful debts	(24,914)	(24,914)
	<u>-</u>	<u>-</u>
	-	-
Other receivables	157,419	56,072
Prepayments and deposits	10,396	15,051
Staff receivables	34,114	55,444
Less provision for doubtful debts	(140,273)	-
	<u>61,656</u>	<u>126,567</u>
	=====	=====

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	2019 KES'000	2018 KES'000
<b>21 SHORT TERM DEPOSITS</b>		
National Bank of Kenya Limited	-	-
Standard Chartered Bank of Kenya Limited	47,000	47,000
	<u>47,000</u>	<u>47,000</u>
	=====	=====

The effective interest rates was as follows:

	2019 %	2018 %
National Bank of Kenya Limited	7	11
Standard Chartered Bank of Kenya Limited	7	9
	===	===

Short term deposits are held against letters of credit committed against ordered overseas items.

**22 BANK AND CASH BALANCES**

Cash and bank balances	4,118	10,925
Short term deposits (note 21 )	47,000	47,000
	<u>51,118</u>	<u>57,925</u>
	=====	=====

Cash and bank balances are held at National Bank, Kenya Commercial Bank, Co-operative Bank of Kenya, Diamond Trust Bank and Standard Chartered Bank as at 30<sup>th</sup> June 2019.

<b>23 ORDINARY SHARE CAPITAL</b>	2019 KES'000	2018 KES'000
Authorised:		
30,000,000 ordinary shares of KES 20 each	600,000	600,000
	=====	=====
Issued and fully paid:		
27,150,000 ordinary shares of KES 20 each	<u>543,000</u>	<u>543,000</u>

**24 REVALUATION RESERVE**

The revaluation surplus represents the net cumulative surplus arising from revaluation of property, plant and equipment net of reclassification, adjustments, depreciation and deferred taxation. The revaluation surplus is non-distributable.

**25 RETAINED EARNINGS (DEFICIT)**

The retained earnings (Deficit) represent amounts available for distribution to the entity's shareholders.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

		2019 KES'000	2018 KES'000
26	<b>BORROWINGS</b>		
	<b>a) Loans</b>		
	National Treasury	38,685,601	37,406,797
	Agriculture Food and Fisheries Authority	2,555,679	2,470,544
		<u>41,241,280</u>	<u>39,877,342</u>
		=====	=====

The borrowings are repayable as follows:

On demand or within 1 year	40,815,012	39,577,342
After 1 year	426,268	300,000
	<u>41,241,280</u>	<u>39,877,342</u>
	=====	=====

Total borrowings	41,241,280	39,877,342
	=====	=====

The company has defaulted on loan repayments and the entire loan amount is due for repayment on demand.

	2019 KES'000	2018 KES'000
<b>b) Movement in loans</b>		
At 1 July	39,877,342	38,693,301
Accrued interest	885,792	884,041
Interest paid	-	-
Foreign exchange difference	33,454	-
Loans received	426,268	300,000
Grants Adjustment	18,424	-
	<u>41,241,280</u>	<u>39,877,342</u>
	=====	=====
At 30 June	41,241,280	39,877,342
	=====	=====
This is made up of:		
Principal	12,544,135	12,544,135
Accrued interest	28,697,145	27,333,207
	<u>41,241,280</u>	<u>39,877,342</u>
	=====	=====

26 **BORROWINGS**

The effective interest rates on the borrowings during the year were:

<b>c) Interest rates</b>	2019	2018
	%	%
The National Treasury	5.3	5.3
Agriculture Food and Fisheries Authority	10.9	10.9
	=====	=====



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**d) Details of securities for borrowings**

The loans from The National Treasury and the Agriculture Food and Fisheries Authority are unsecured. These loans were advanced in tranches on diverse dates in the 1990's and have been long outstanding. The company has defaulted on repayment of both principal and interest in the past. The terms and conditions of the loan could not be satisfactorily established due to the lapse in time and the lack of complete records.

**27 DEFERRED INCOME TAXATION LIABILITY**

Deferred income taxes are calculated on all temporary differences under the liability method using the current enacted tax rate of 30%.

	2019 KES'000	2018 KES'000
The net deferred taxation liability is attributable to the following items:		
<b>Deferred taxation liabilities:</b>		
Accelerated capital allowances	-	-
Fair value adjustment - biological assets	-	-
Revaluation surpluses	-	-
	-----	-----
Total liabilities	-	-
<b>Deferred taxation assets:</b>		
Provision for service gratuity		-
Provision for staff leave pay		-
Unrealised exchange losses		-
General doubtful debts provision		-
Provision for obsolete stock		-
Tax losses available for offset against future profits		-
Deferred tax assets not recognised		-
	-----	-----
<b>Total assets</b>		-
	-----	-----
Total	3,885,282 =====	3,885,282 =====
The movement on the deferred taxation account during the year was as follows:		
At 1 July	3,885,282	3,885,282
Prior year adjustment (note 28)	-	-
As restated	-	-
Charged to other comprehensive income	-	-
Profit or loss charge (note 8a)	-----	-----
At 30 June 2019	3,885,282 =====	3,885,282 =====

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The deferred tax asset has not been recognised in the financial statements because of the uncertainty regarding the company's ability to generate sufficient taxable profits in the foreseeable future that will allow the deferred tax asset to be recovered. The directors consider it prudent not to recognise any deferred tax asset until the future of the company can be predicted reliably.

**28 TRADE AND OTHER PAYABLES**

	2019 KES'000	2018 KES'000
Trade payables	696,313	709,954
Due to out growers	329,146	502,690
Tax penalties	3,285,596	2,524,266
Sugar Development Levy	856,603	856,603
Accruals	1,506,335	1,312,172
Other payables	1,887,177	1,279,996
	<u>8,561,170</u>	<u>7,185,681</u>
	=====	=====

**29 RETIREMENT BENEFITS OBLIGATIONS**

	2019 KES'000	2018 KES'000
<b>(a) AMOUNTS DUE TO STAFF PROVIDENT FUND</b>		
Balance at the beginning of the year	212,627	243,948
Interest charge	-	-
Paid during the year	(10,634)	(31,321)
	<u>201,993</u>	<u>212,627</u>
	=====	=====

These are amounts payable to the Nzoia Sugar Company Staff Provident Fund and related to accrued retirement benefits and other gratuity benefits due to Unionisable employees up to the reporting date.

Following a government directive, the gratuity arrangement due to Unionisable staff members under the Collective Bargaining Agreement between the company and the Union, was terminated on 30 June 2012. Accrued member benefits as at this date were transferred to the provident fund. From 1 July 2012, the company's liability related to staff retirement benefits is limited to the amounts transferrable to the provident fund, and the company's monthly contributions to the provident fund on behalf of eligible members.

The company has however not transferred the retirement benefits amounts to the provident fund due to lack of funds. The unpaid amount due to the provident fund attracts interest at 7% per annum.

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**29 (b) DEFINED BENEFITS SCHEME ASSET (CONTINUED)**

The company also operated a contributory defined benefit scheme for qualifying non Unionisable employees, with the company meeting the balance of the cost of providing the benefits under the scheme. The scheme was closed to new entrants and to future accrual of benefits with effect from 1 July 2007. The accrued (past service) benefits in respect of the scheme's in-service members at the closure date are revalued at 5% per annum over the period to retirement or earlier exit from service.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2017 by Alexander Forbes Financial Services (EA) Limited. Normal retirement age for scheme members was assumed to be 60 years. The accrued liability in respect of pensioners was taken as the present value of the expected future pension payments. The principal assumptions used for the purposes of the actuarial valuations were as follows:

Interest rate per annum	13%
Rate of revaluation of deferred benefits (per annum)	5%
Rate of pension increases per annum	Nil
Retirement age (years)	60

	2019	2018
	KES'000	KES'000
The credit recognised in profit or loss in respect of the scheme is as follows:		
Current service cost		
Net interest on the net defined benefit asset		
Total included in staff costs in respect of scheme	=====	=====

**Retirement Benefits Obligations**

	2019	2018
	KES'000	KES'000
Actuarial gains		-
Return on plan assets		-
Change in effect of asset ceiling		-
Total (credit)/charge to other comprehensive income	=====	=====

The amount of scheme assets over accrued liabilities in respect of the defined benefit scheme is as follows:

	2019	2018
	Sh'000	Sh'000
Value of accrued liabilities	-	-
Value placed on scheme assets	-	-
	=====	=====
	(45)	(45)



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	<b>2019</b>	<b>2018</b>
	<b>KES'000</b>	<b>KES'000</b>
<b>30 PROVISIONS FOR STAFF LEAVE PAY</b>		
At the beginning of the year	58,923	89,137
Paid in the year	(11,311)	(30,214)
	<u>          </u>	<u>          </u>
At the end of the year	47,612	58,923
	<u>=====</u>	<u>=====</u>
<b>31 NOTES TO THE STATEMENT OF CASH FLOWS</b>		
(a) Reconciliation of loss before taxation to cash generated from (used in) operations		
Loss before taxation	(3,164,032)	(3,568,733)
<i>Adjustments:</i>		
Finance income (note 12)	(7,624)	(8,793)
Finance costs (note 13)	885,792	884,044
Fair value gain investment property	-	-
Depreciation (note 15)	556,657	624,143
Amortisation (note 16)	9,788	10,432
Loss/ (gain) on disposal of property, plant and equipment	-	(113)
Foreign exchange difference on borrowings (note 26)	33,454	(1,148)
Fair value loss /gain on biological assets (note 7)	(307,736)	233,305
	<u>          </u>	<u>          </u>
Cash used in operations before working capital changes	(1,993,702)	(1,826,864)
<i>Movements in:</i>		
Out-growers balances	(17,666)	(46,820)
Inventories	7,363	82,847
Trade and other receivables	64,911	14,113
Staff provident fund	(10,634)	(31,320)
Defined benefit obligation (note 29)	-	-
Trade and other payables	1,703,761	1,785,579
Provision for staff leave pay (note 30)	(11,311)	(30,215)
	<u>          </u>	<u>          </u>
Cash generated (used in) operations	(257,277)	(52,678)
	<u>=====</u>	<u>=====</u>
(b) Analysis of the balances of cash and cash equivalents		
Bank and cash balances (note 22)	4,118	10,925
Short term deposits (note 21)	47,000	47,000
	<u>          </u>	<u>          </u>
	51,118	57,925
	<u>=====</u>	<u>=====</u>

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**32 RELATED PARTY BALANCES AND TRANSACTIONS**

**a) Key management compensation**

The remuneration for key management during the year was as follows:

Salaries and other benefits	64,452	52,427
	=====	=====

**b) Directors' remuneration**

Fees for services as directors		
Directors Honorarium	743	-
Directors' expenses	29,404	42,721
	=====	=====

**33 CAPITAL COMMITMENTS**

Commitments at the year-end for which no provision has been made in these financial statements:

Authorised and contracted for	47,000	47,000
Authorised but not contracted for	720,354	677,861
	=====	=====
	767,354	724,861
	=====	=====

The capital commitments relate primarily to expenditure on factory improvement. The company intends to fund these commitments through internally generated funds and loans.

2019	2018
KES'000	KES'000

**34 CONTINGENT LIABILITIES**

Pending claims	74,200	74,200
Letters of credit	47,000	47,000
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**35 RISK MANAGEMENT POLICIES**

**Overview**

The company's activities expose it to a variety of operational and financial risks. These activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the company's business and the operational risks are an inevitable consequence of being in business.

The company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance. The key types of financial risks include:

- Credit risk
- Market risk
- Liquidity risk

The key operational risks include political and environmental risks.

The company's financial risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and at the same time ensuring adherence to laid down limits. This is achieved by means of reliable and up-to-date information systems. The company regularly reviews its financial risk management policies and systems to reflect changes in markets and emerging best practices. The company's overall risk management program focuses on the unpredictability of changes in the business environment and seeks to minimize potential adverse effects of such risks on its financial performance within the options available in the Kenyan market by setting acceptable levels of risks. Financial risk management is carried out by senior management under the supervision of the Board of Directors. Management in conjunction with various committees then identifies, evaluates and addresses risks accordingly.

In addition, the company has an independent internal audit department which reports directly to the Board Audit Committee. This department is responsible for assessing the risk faced by the company on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls that address these risks. The company does not enter into or trade in financial instruments, including derivative financial instruments, for either hedging or speculative purposes.

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The company is exposed to this risk in several areas including trade and other receivables and cash and cash equivalents. However, the company's credit risk is concentrated mainly in advances issued to farmers in the form of farming inputs and in trade receivables in the form of sugar debtors. The company gives advances to farmers in the form of farming inputs to facilitate sugarcane crop establishment and to improve the productivity of the growing crop. Advances to farmers are eventually deducted from the value of the cane delivered upon harvesting. The key risk is therefore that the yield from the crop will not be sufficient to cover the advanced credit.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**35 RISK MANAGEMENT POLICIES (Continued)**

**Credit risk management (Continued)**

The company counters this risk by placing significant emphasis on the vetting and selection of farmers. This is done with the aid of comprehensive and documented criteria which includes a review of farmers' payment histories. The company also monitors budgeted sales outputs and expected factory crushing capacity and also forecasts of expected environmental conditions to aid it in budgeting for these advances. However, the existence of favourable weather conditions will always remain outside the control of the company.

Political upheavals and general unrest also pose a risk to the company usually resulting in the burning of immature cane. Burning of immature cane reduces the quality and the quantity of the yield from such cane in addition to raising production costs and waste. While an element of this risk is outside the company's control, it has however sought to mitigate this risk by enhancing security in its nucleus estates. The company does not purchase burnt cane from farmers in order to discourage irresponsible burning of immature cane by farmers in order to readily obtain quick cash.

The bulk of the company's revenue relates to sugar sales. The company has a documented credit policy whose management and implementation is overseen by a Credit Committee. The Committee manages limits and controls concentrations of credit risk wherever they are identified. It structures the levels of credit risk it undertakes by placing limits on the amount of risk acceptable in relation to a debtor or categories of debtors. Such risks are monitored on a regular basis and are subject to regular reviews. Exposure to credit risk is managed through regular analysis of the ability of credit customers to meet their obligations and by adjusting the limits appropriately. The credit risk on trade receivables is further mitigated by requiring most credit customers to provide guarantees issued by reputable banks recommended by the company.

In measuring credit risk relating to trade receivables, the company therefore reflects three components:

The 'probability of default' by the customer or counterparty on its contractual obligations; current exposures to the counterparty and its likely future development, from which the company derive the 'exposure at default'; and the likely recovery ratio on the defaulted obligations. With regard to impairment of outstanding receivables, it is the company's policy to assess/review all debts over 60 days for impairment and to provide for all debts where a debtor is declared bankrupt or facing financial difficulties. In some cases where an unsecured customer is in arrears the whole amount is provided for.

***Maximum exposure to credit risk before collateral held or other credit enhancements***

The maximum exposure to credit risk represents a worst case scenario of credit risk exposure to the company at the end of the reporting period, without taking account of any collateral held or other credit enhancements attached. For reported financial assets, this exposure is based on net carrying amounts as reported in the statement of financial position.

***Collateral***

The collateral held for sugar debtors include guarantees from reputable banks recommended by the company. The credit risk on liquid funds is limited because the counterparties are commercial banks with high credit-ratings assigned by international credit-rating agencies. No collateral is held for advances to farmers.

The credit risk exposures are classified in three categories:

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**35 RISK MANAGEMENT POLICIES (Continued)**

**Credit risk management (Continued)**

***Neither past due nor impaired***

The company classifies financial assets under this category for those exposures that are up to date and in line with contractual agreements.

***Past due but not impaired***

These relate to financial assets that have passed the contractual payment period but are expected to be recovered within reasonable timelines. These assets are not impaired and continue to be recovered with the active involvement of management. The collateral held for sugar debtors in this category includes guarantees from reputable banks recommended by the company.

***Impaired***

Impaired financial assets are those for which the company determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the agreement(s). No collateral is held with respect to the debt, or the collateral doesn't sufficiently cover the exposure. On an ongoing basis, a credit evaluation is performed on the financial condition of accounts receivable.

***Analysis of credit risk exposure***

The amount that best represents the company's maximum exposure to credit risk at the reporting date is made up as follows:

	Neither past due nor impaired KES'000	Past due but not impaired KES'000	Impaired KES'000	Total KES'000
<b>30 June 2019</b>				
Trade receivables	-	-	24,914	24,914
Due from outgrowers	58,401	29,200	305,019	392,620
Short term deposits	47,000	-	-	47,000
Bank balances	4,118	-	-	4,118
	<hr/>	<hr/>	<hr/>	<hr/>
	109,519	29,200	329,933	468,652
	=====	=====	=====	=====
<b>30 June 2018</b>				
Trade receivables	-	-	24,914	24,914
Due from outgrowers	46,622	23,311	326,391	396,325
Short term deposits	47,000	-	-	47,000
Bank balances	10,925	-	-	10,925
	<hr/>	<hr/>	<hr/>	<hr/>
	104,547	23,311	351,305	479,164
	=====	=====	=====	=====

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**35 RISK MANAGEMENT POLICIES**

**Credit risk management (Continued)**

**Market risk management**

Market risk is the risk arising from changes in market prices, such as interest rate and foreign exchange rates which will affect the company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the company's management under the supervision of the Board of Directors.

**(i) Interest rate risk**

Interest rate risk arises primarily from borrowings, fixed and collateral deposits, cash and cash equivalents. The company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios.

**(ii) Currency risk**

The company undertakes certain transactions denominated in foreign currencies, mainly the US dollar and the Euro. This results in exposures to exchange rate fluctuations. The company however did not have balances denominated in foreign currency as at year end.

**Liquidity risk management**

This is the risk that the company will encounter difficulties in meeting its financial commitments from its financial liabilities that are settled by delivering cash or another financial asset. Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the company's reputation. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has developed and put in place an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. In addition, all major capital investments are funded by a mixture of equity and long-term debt.

The following table analyses the company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods.

The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company may be required to pay. The tables include both interest and principal cash flows and exclude the impact of netting agreements.

<b>At 30 June 2019</b>	<b>1 - 6 months KES'000</b>	<b>6 - 12 Months KES'000</b>	<b>Above 1 year KES'000</b>	<b>Total KES'000</b>
Borrowings	-	40,815,012	426,268	41,241,280
Trade payables	-	696,313	-	696,313
Payables to out-growers	-	329,146	-	329,146
	-	41,840,471	426,268	42,266,739

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**35 RISK MANAGEMENT POLICIES (Continued)**

**Liquidity risk management (Continued)**

	1 - 6 months KES'000	6 – 12 Months KES'000	Above 1 year KES'000	Total KES'000
<b>At 30 June 2018</b>				
Borrowings	-	39,577,342	300,000	39,877,342
Trade payables	-	709,954	-	709,954
Payables to outgrowers	-	502,690	-	502,690
	=====	=====	=====	=====
	-	40,789,986	300,000	41,089,986
	=====	=====	=====	=====

**Fair value of financial assets and liabilities**

**a) Financial instruments measured at fair value**

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
<b>At 30 June 2019</b>				
Property, plant and equipment	-	10,631,169 -	-	10,631,169
Biological assets	-	538,978 -	-	538,978
Investment property	-	250,000 -	-	250,000
	=====	=====	=====	=====
<b>At 30 June 2018</b>				
Property, plant and equipment	-	11,197,183 -	-	11,197,183
Biological assets	-	367,698 -	-	367,698
Investment property	-	250,000 -	-	250,000
	=====	=====	=====	=====

There were no transfers between levels 1, 2 and 3 during the year.



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b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the financial carrying amounts are a reasonable approximation of their fair values.

**36 CAPITAL MANAGEMENT**

The company's objectives when managing capital are:

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- To maintain financial strength to support business growth; and
- To safeguard the company's ability to continue as a going concern so that it can continue to provide adequate returns to its shareholders and value to all other stakeholders.

The capital structure of the company consists of debt, which includes the borrowings less cash and cash equivalents and equity attributable to equity holders, comprising issued capital, revaluation surplus and retained earnings. The Board of Directors reviews the capital structure on a regular basis. As part of this review, the board considers the cost of capital and the risks associated with each class of capital.

Based on the review, the company analyses and assesses the gearing ratio to determine the appropriate levels. This ratio is calculated as net debt divided by equity. Net debt is calculated as total borrowings less cash and cash equivalents.

There have been no material changes in the company's management of capital during the year.

	2019	2018
	KES '000	KES '000
The gearing ratio at the year-end was as follows:		
Shareholders' deficit	(41,551,388)	(38,382,596)
Borrowings (note 26)	41,241,280	39,877,342
Short term deposits (note 21)	(47,000)	(47,000)
Cash and bank balances (note 22)	(4,118)	(10,925)
Net debt	41,292,398	39,819,417
Gearing ratio	Over 100% =====	Over 100% =====

**37 INCORPORATION**

The company is domiciled and incorporated in Kenya under the Kenyan Companies Act.

**38 CURRENCY**

These financial statements are prepared in thousands of Kenya Shillings (KES '000), the company's functional currency.

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**XVII. PROGRESS ON FOLLOW UP ON AUDITORS RECOMMENDATIONS 2019**

Area	Management Response	Implementation by
<b>i) Property Plant and Equipment</b>  <p>Included in the PPE of KES 12,096,771,000 2016/17 financial year was a plant with a carrying value of KES 295,697,000 which was procured between 1990-1993 but has been lying idle since acquisition and thus has not generated any income for the Company.</p>	<p><i>We invited the Ministry of Public Works to value the idle assets for purpose of disposal and a reserve price was given for every item. The management is in the process of disposing the idle assets through competitive bidding.</i></p>	<p>Chief Executive Officer/Factory Manager/Purchasing Manager</p>
<b>ii) Provisions and contingent liabilities</b>  <p>As at the time of audit in 2016/17 financial year, independent confirmations from all company lawyers had not been received with regard to ongoing litigations, therefore the impact of outstanding cases could not be established.</p>	<p>The company is still following up on the confirmations sent to our lawyers through the company secretary.</p>	<p>Company Secretary</p>
<b>iii) Management of out-growers (farmers) balances</b>  <p>The out-growers balances (farmers) are managed using the Agricultural Management Systems (AMS) which captures individual farmer records while the finance systems is using Systems Applications and Production (SAP) which maintains a control account of the total out-growers balances. The interface between the two systems is still manually done hence the records between the two are inconsistent. Therefore, there was a possibility that the out-growers balances recorded were not be accurate.</p>	<p><i>The AMS system has captured the farmers' balances correctly and reconciliations are periodically done. The interface is what has not been completed though the process is on.</i></p>	<p>Information Technology Manager/ Finance Manager</p>
<b>iv) The National Treasury Guaranteed loans</b>  <p>As at 30/6/2017 the Government of Kenya through the National Treasury loans guaranteed to the</p>	<p><i>The government of Kenya through the privatization commission is in the process of writing off the loans. Management wrote to the Ministry of Finance with a</i></p>	<p>Board of Directors/ Chief Executive Officer</p>

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company's creditors stood at KES 36,289,427,006 comprising of accrued interest of KES 26,193,798,631 and Principal amount of KES 10,095,628,375. The Company has continued to default on repayments while there is no actionable evidence of write off.	<i>view of carrying out reconciliation of the loan amount before privatization is completed. Attached session Paper no.12 of 2012</i>	
<b>v)</b>		
<b>vi) Loan from Agricultural and food Authority- KES 2,403,175,624.00</b>  As at 30/6/2017 the Company had a loan from Agricultural and food Authority, for which the Company had not met its covenant terms. The principal and the interest had not been settled. Further, the Company had not remitted KES 856,603,000 to the Sugar Board as required by the Sugar Act No. 10 of 2001.	<i>The Company still owes formally Kenya Sugar Board the above amount for loans advanced and SDL. The cash flow constraints the company has been undergoing made it difficult to release the payment to KSB. Low sugar prices brought about by cheap sugar imports and high cost of production affected the ability of the company to meet most of its obligations including the loans. The government of Kenya through the privatization commission is in the process of writing off the loans.</i>	Board of Directors/ Chief Executive Officer
<b>vii) Non-Remittance of taxes and other levies</b>  During the 2016/17 financial year, the Company did not clear outstanding payments of recovered balances OF Pay As You Earn (P-A-Y-E), Value Added Tax (VAT), Sugar Development Levy (SDL) and withholding taxes to the respective institutions notwithstanding the growing arrears and penalties of non-Payment.	<i>The tax arrears payable to KRA has not been cleared owing to challenges related to cash flows. The prices of sugar went drastically low to almost 50% of our cost of production and therefore making it difficult for us to honour our commitment of meeting the obligations as they fell due. The company has engaged the KRA office on the repayment structure once the company cash-flow improves.</i>	Chief Executive Officer

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**XVIII. APPENDIX 1: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE 2019**

**STATEMENT OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2019**

		2019	BUDGET	PERFORMANCE
	Note	Shs'000	2018/19	DIFFERENCE
Revenue	4	1,829,643	4,879,952	(3,050,309)
Gains on Disposal of Non-Financial Assets	5	-	-	-
Other Income	6	31,375	75,137	(43,762)
Fair value gain/(loss) on biological assets	7	<u>307,736</u>	618,005	(310,269)
<b>TOTAL REVENUE</b>		2,168,753	5,573,094	(3,404,341)
Cost of sales	8	<u>(2,330,248)</u>	<u>(3,426,713)</u>	1,096,465
Gross profit		(161,494)	2,146,381	(2,307,875)
<b>OPERATING EXPENSES</b>				-
Administrative expenses	9	(2,065,167)	(1,473,271)	591,896
Marketing and distribution costs	10	(3,004)	(45,542)	42,538
Depreciation of property, plant & machinery	15	(46,410)	(129,682)	(83,272)
Amortisation of intangible Assets	16	(9,788)	-	(9,788)
<b>TOTAL OPERATING EXPENSES</b>		<b>(2,124,370)</b>	<b>(1,648,495)</b>	<b>(475,875)</b>
<b>OPERATING PROFIT/(LOSS)</b>	<b>11</b>	<b>(2,285,864)</b>	<b>497,886</b>	<b>((2,783,750))</b>
Finance income	12	7,624	11,895	(4,271)
Finance costs	13	<u>(885,792)</u>	<u>(509,781)</u>	(376,011)
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>(3,164,032)</b>	<b>38,442</b>	<b>(3,202,474)</b>
Taxation credit/(charge)	14	-	-	-
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b><u>(3,164,032)</u></b>	<b><u>38,442</u></b>	<b>(3,202,474)</b>

**BUDGET NOTES**

1. Revenue had an adverse variance due to low production volumes as a result of cane shortage

2. The Company did not realize the targeted amount for other income as the earmarked projects i.e. scrap metals, boarded vehicles, soya oil and beans sales did not take off as planned.

3. Finance income fell below target due to cash-flow constraints experienced by the company hence not able to deposit extra cash into fixed deposits accounts as planned



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**XIX. APPENDIX 2: PROJECTS IMPLEMENTED BY THE COMPANY**

	Project/Contractor	Year of Budget	Budget (Ksh)	Contract Sum (Ksh)	Amount paid (Ksh)	Ongoing Jobs	%age Comp.	Remarks
1	Mayanja Twin Cell Culvert/ Kinde Eng.	2016/17	11,392,339.20	11,392,339.20	4,556,935.68	Work completed	100	Completed and waiting for Commissioning.
2	Design, manufacture, supply, installation & commissioning of syrup clarification plant/ Surviron Equipment Pvt Ltd	2011/12	60,000,000.00	38,700,000.00	24,572,811.00	Installed	100	Not Commissioned to Lack of Funds
3	Supply of 54TPH boiler modification/ Avant Garde Eng.	2015/16 2016/17	140,000,000.00	126,518,000.00	113,036,000.00	None	50	Items at the Port not Cleared due to Financial Constrains
4	Supply, installation & commissioning of mixed juice filtration system & rehabilitation of mud filters/ Shalini Impex	2016/17	93,000,000.00	90,356,000.00	30,340,850.00	None	55	Mud Rehabilitation awaiting Comm. Juice Filtration equipment yet to be supplied and Installed
5	Upgrade of one cane weighbridge PIC mounted to surface type./ Avery EA Ltd	2015	10,000,000.00	9,816,512.00	6,338,420.00	Completed	100	Contractor awaiting payment on commissioning and retention.
	<b>TOTAL</b>		<b>314,392,339.2</b>	<b>276,782,851.2</b>	<b>178,845,016.68</b>			

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**For the year ended June 30, 2019**

**XX. APPENDIX 3: INTER COMPANY TRANSFERS**

The Company had no inter-entity transfers as at the end of 30<sup>th</sup> June 2019.

**XXI. APPENDIX 4: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

The Company had no transfers from other Government entities as at the end of 30<sup>th</sup> June 2019.