SONYSUGAR

SOUTH NYANZA SUGAR COMPANY LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2005

AUDITORS:
CONTROLLER & AUDITOR GENERAL
KENYA NATIONAL AUDIT OFFICE
P. O. BOX 49384
NAIROBI

Registered Office: South Nyanza Sugar Company Limited
P. O. Box 107
Sare Awendo
Telephone (254) 059-43620

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF SOUTH NYANZA SUGAR COMPANY LTD FOR THE YEAR ENDED 30 JUNE 2005

SOUTH NYANZA SUGAR COMPANY LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Contents	**Page**

SOUTH NYANZA SUGAR COMPANY LIMITED

DIRECTORS

Mr. Elly O. Otondi	Chairman
Alternate - Mr. C. Onchoke	Permanent Secretary, Ministry of Finance
Alternate – Mrs. P. Koech	Permanent Secretary, Ministry of Agriculture
Mr. P. Okoth	Representative, Attorney General's office
Alternate – Mr. J. K. Karanja	Managing Director Industrial Development Bank
Alternate – Mr. D. J. Oyieko	Executive Director, I C D C
Mr. N. Otuke	Director (since November 2004)
Mr. A. Owiro	Director
Mr. J. L. Nakuro	Director
Mr. A. Migwalla	Director
Mr. J. Ole Yiampoi	Director

SENIOR MANAGEMENT

Mr. A. Otieno	Managing Director
Mr. B. A. Otieno	Factory Manager
Mr. S. S. Namsando	Finance Manager
Mr. A. Hongo	Agriculture Manager
Mr. J. C. Ochieng	logistics Manager
Ms. Jane P. Odhiambo	Sales & Marketing Manager
Mr. T. Ochieng	Ag. Human Resources Manager
Mr. G. Otiende	Ag. Company Secretary

AUDITORS:

Controller & Audior General
Kenya National Audit Office
P. O. Box 49384
NAIROBI

BANKERS:

National Bank of Kenya Ltd.
P. O. Box 41862
NAIROBI

COMPANY LAWYERS-Various

SOUTH NYANZA SUGAR COMPANY LIMITED

CHAIRMAN'S STATEMENT

I am delighted to present the annual report and financial statements for the year ended 30th June 2005.

OVERVIEW

The company recorded a commendable improvement in both revenue and production compared to the previous period. This is mainly attributed to the better market conditions seen in good sugar prices, growth in the economy and efforts by the management to minimize operational costs.

The company's net profit of Kshs.287 million is the highest ever in the company's history representing an increase of 498% over the previous year's Kshs.48 million profit. The net income increased from Kshs.2,359 million to Kshs.2,985 million, which is a 26% increase over last year.

The company processed 770,555 tonnes of cane, an increase of 14% over the previous period. Sugar produced was 78,949 tonnes representing a 15% increase over the previous year. This was achieved because of adequate cane supply and better utilization of available machinery. The poor state of roads and unpredictable weather continue to be a threat to higher productivity.

The company continued to significantly contribute to the government's revenue and during the year paid Kshs.460 million compared to Kshs.240 million the previous year to the exchequer in taxes from VAT. Sugar Development Levy of Kshs.185 million was paid compared to Kshs.90 million in the previous period. The high taxes and levies in the sugar industry as earlier highlighted remain a major constraint and threat to competition in a fully liberalized market that we continue to draw nearer to. It is our continued expectation that the rates will be reviewed downwards especially given that sugar is a basic food.

In order to enhance farmers' confidence in sugar cane growing and ensure continuity of supply, the company paid out to farmers a total of Kshs.807 million for cane deliveries. This has encouraged cane development and prepared the company for the expansion program that is envisaged in the Strategic plan. The company continues to strive towards paying all the arrears and be current in the new financial period.

THE BOARD

The Board of Directors through the various committees continues to contribute to the overall policy and operation guidelines to ensure the company faces the challenges in the market environment.

The Board notes that its independence on matters of policy and corporate governance was maintained throughout the year and is happy to be associated with the good results. The Board will continue to support the management in matters of policy to facilitate even better results.

FUTURE OUTLOOK

Following the signing of the performance contract with the government on 30th June 2005, the new financial year 2005/06 is set to be more challenging. The company is set and prepared to take up the challenge with an expectation of better cane deliveries and increased sugar production.

Focus will also be put on lowering costs of production, better capacity utilization and product diversification.

The company is also looking forward to the writing off of the major debts to the government to clean up the balance sheet and pave way to the expansion program that a number of prospective investors have shown interest in. This will prepare the company for competition in fully liberalized market in 2007.

On behalf of the Board of Directors, I wish to thank all our farmers, suppliers and other stakeholders for their support in the year ended and contribution in achieving good results. I also wish to thank our sugar customers for their support.

May I also thank the management and staff for their hard work, continued commitment to duty and loyalty to the company.

As we embark on the coming financial year under Performance Contract with the Government, it is my hope that we shall strive to surpass the performance targets and ensure even better results are achieved.

Thank you.

Mr. Elly Otondi
Chairman
South Nyanza sugar Company Limited
September 9, 2005.

MANAGING DIRECTOR'S REPORT

The financial year ended 30th June 2005 was a very successful one for Sonysugar Co. Ltd. This was mainly as a result of increased demand for sugar and good sugar prices over and above the budgeted selling prices.

I must thank the government for the continued support to the sugar industry through effective control of imports and streamlining the operations in the sub-sector. Management takes pride in the company's all-round achievement and would like to thank the Board of Directors and staff for their support and hard work that has yielded these results.

PRODUCTION

The factory achieved a production of 78,949 tonnes of sugar, that is an increase of 15% over 2003/04 production at a rendement of 10.2%. A total of 770,555 tonnes of cane was milled representing an increase of 14% above 2003/04 financial year.

We anticipate to mill 910,000 tonnes of cane at a rendement of 10.6% yielding 96,460 tonnes of sugar in the 2005/06 financial period. With the expansion programme at an advanced stage, we hope to surpass these targets.

OPERATIONAL COSTS

The cost of production per tonne of sugar reduced marginally from Kshs.34,564 to Kshs.33,898.

Total operating costs however increased by 16% over and above the previous year's costs.

SALES AND MARKETING

The company sold 79,132 tonnes of sugar at an average net price of Kshs.37,445 per metric tonne. This represented an increase of 17% over last period's sales volume. The widening of the market base and increased customer sensitization are key initiatives for the growth.

AGRICULTURAL OPERATIONS

There was adequate cane availability throughout the year and continued investment in land development to ensure adequate supply into the future. The anticipated factory expansion as per the strategic plan saw increased investment in land development. I foresee a recurrence of the over mature cane situation should there be a delay in the factory expansion.

During the year a total acreage of 2,643.7 ha was available for planting while a total of 769,966 tonnes were harvested.

HUMAN RESOURCES

During the year a number of senior managers were sent for management development programmes overseas to enhance productivity. The company continued to enjoy harmonious industrial relations as a result of improved management-workers participation on issues affecting performance and staff welfare.

The company staff strength showed a downward trend to 1,293 from 1,306 as at June 30th 2004.

THE FUTURE

The financial year 2005/06 is set to be another very challenging year for Sonysugar. With the company being on performance contract with the Government, targets are going to be key to all staff and cost control top on the agenda.

The escalating oil prices, interest rates and economic growth forecasts, that continue to fluctuate will continue to be major challenges on the economic front.

The above challenges not withstanding, the management has developed strategies for delivering robust performance for the company.

Ambrose Otieno
Managing Director
South Nyanza sugar Co. Ltd.
September 9, 2005.

SOUTH NYANZA SUGAR COMPANY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2005

The Directors have pleasure in presenting their report together with the accounts for the year ended 30 June 2005.

1. Principal Activities

The company is incorporated under the Companies Act (Cap.486) and is involved in the manufacturing and selling of mill white sugar.

2. Production and Sales

The following are the comparative statistics of cane deliveries and sugar production as at 30 June 2005.

	2005	**2004**
Cane deliveries (tonnes)		
Nucleus Estate	93,113	93,533
Outgrowers	677,442	581,365
Total (tones)	770,555	674,898
Sugar Production (tones)	78,949	68,400
Rendement	10.20%	10.18%

3. Profitability

The company realized a trading profit of Kshs.385,791,954 and net profit of Kshs.287,105,873 after financing charges.

The main contributing factors were:

(i) Relatively favourable and stable selling prices

(ii) Government control of cheap imports from Comesa partners

(iii) Relative growth in the economy

4. Dividends

In view of the accumulated losses the Directors do not recommend any dividend.

5. Directors

The Directors of the company are as stated on page 1 of this report. The Directors and alternates continue in office in accordance with the provisions of the Articles of Association of the Company.

6. Auditors

The Controller and Auditor General continue as the company's external auditors in accordance with Section 12 of the Public Audit Act 2003.

By order of the Board.

Gabriel Otiende
Company Secretary (Ag)
South Nyanza Sugar Company Limited
September 9, 2005.

SOUTH NYANZA SUGAR COMPANY LIMITED

Statement of Directors' Responsibilities

The company's Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of the company's affairs as at the end of the financial year and the company's Profit & Loss for the year.

It requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the company's assets. It requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy the financial position of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act.

The directors are of the opinion that the financial statements for the financial year ending June 30, 2005 give a true and fair view of the state of the financial affairs of the company and of its profit. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Elly Otondi

Chairman

Ambrose Otieno

Director

REPUBLIC OF KENYA

HARAMBEE

KENYA NATIONAL AUDIT OFFICE

THE REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2005

I have audited the financial statements of South Nyanza Sugar Company Ltd for the year ended 30 June 2005 in accordance with the provisions of Section 14 of the Public Audit Act, 2003. 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. The financial statements are in agreement with the books of accounts.

Respective Responsibilities of the Directors and Controller and Auditor General

As set out in the statement of directors' responsibilities, the directors are responsible for the preparation of financial statements which give a true and fair view of the company's state of affairs and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

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

Comments

1. Financial Position

During the year ended 30 June 2005, the Company's financial performance improved as it realized a net profit of Kshs.287,105,873 (2003/04 – Kshs.48,061,671), thereby reducing its accumulated losses to Kshs.1,348,860,771 as at 30 June 2005.

However, the balance sheet still reflects a negative working capital of Kshs.1,064,699,956. The company was therefore not able to meet its financial obligations as and when they fell due. In particular it was unable to service its overdue long-term loans and accrued interest amounting to Kshs.509,275,238 and Kshs.284,363,534 respectively and trade creditors and other creditors totaling Kshs.1,159,573,105 which include Kshs.285,992,110 due to cane farmers.

The company is technically insolvent and these financial statements have been prepared on a going concern basis on the assumption that the company will continue to receive financial support from the Government, its lenders and creditors.

2. Obsolete Stocks

The company's balance sheet stocks figure of Kshs.424,575,380 includes stores of Kshs.394,046,898 which according to the records are net of provision for obsolete stock of Kshs.64,349,635. However, only Kshs.46,533,680 out of the total of Kshs.64,349,635 could be supported with analysis while the resulting unexplained difference of Kshs.17,815,951 was explained as due to lack of proper accounting entries to record the reduction. Further, the general ledger obsolete stocks net of provision was Kshs.425,041,007 while the balance sheet obsolete stocks net of provision figure was Kshs.394,046,898, also leading to a difference of Kshs.30,944,109 explained as due to lack of proper accounting for spares issues to production. In the circumstances, it was not possible to confirm the carrying value of stocks figure of Kshs.424,575,380 as stated in the financial statements, reflect the fair values of the stocks as at the balance sheet date.

3. Procurement of Reconditioned Caterpillars

During the year under review, the company through single sourcing awarded a contract to a South African Company to supply two (2) caterpillars at a contract sum of SA Rand 1,300,000 (approx. Kshs.14,864,445) where the company made an initial advance payment of S.A. Rand 100,000. Further, the company engaged the services of a freight forwarding firm in South Africa to arrange for the shipping of the caterpillar by sea to the port of Mombasa at a cost of SA Rand 42,930.These caterpillars have to date not been delivered as the Ministry of Agriculture has declined to authorize the importation of reconditioned or second-hand equipment. The company has not explained why prior authority was not obtained from the Parent Ministry. Under the circumstances, the company stands to lose the advance payment of SA Rand 100,000 and SA Rand 42,930 paid to another South African firm engaged to provide freight and shipping services. The contract was entered into in total disregard of the prevailing procurement procedures and no plausible explanation has been given by the management for this.

4. Tax Liability – Kshs.1,554,840,376

During the year under review, the total tax liability of unpaid corporation tax, withholding tax, PAYE and Excise duty including interest and penalties was assessed by Kenya Revenue Authority (KRA) at Kshs.1,554,840,376 made up of Kshs.766,057,649 principal, penalties of Kshs.43,563,200 and interest of Kshs.745,219,527. Penalties and interest amounts have not been provided in the financial statements which have the effect of overstating the profit for the year and the reserves by an equivalent amount. Although the company engaged the services of an audit and consultancy firm to sort out the tax issues with KRA and advise the company, the management agreed to pay the principal amount and then apply for a waiver of interest and penalties. There is no disclosure made in form of notes to the accounts of the tax liability in these financial statements contrary to the requirements of International Accounting Standard 1 on "Presentation of Financial Statements".

5. Procurement of Fertilizer

During the year ended 30 June 2005, the company awarded fertilizer supply tenders to the second lowest tenderer at Kshs.1,720 per 50Kg bag while the lowest tenderer quoted Kshs.1,685 per 50Kg bag. The company issued an order No.76227 for the supply of 72,245 bags of fertilizer at a total cost of Kshs.124,261,400. Although management has explained that the lowest tenderer was disqualified due to failure to provide performance security bond along with the tender bid, evidence to support this explanation was not availed.

In addition, the same supplier who was the third lowest tenderer was awarded another tender to supply 106,338 of 50kg bags of fertilizer at Kshs.1,600 per bag valued at Kshs.170,140,800 instead of the lowest tenderer at Kshs.1,500 per bag. Again, although management explained that lowest tenderer deferred delivery by several months and that the second lowest tenderer failed to submit a performance security bond together with the tender bid, no such evidence to support the explanation was seen.

Further the company awarded additional tenders for supply of fertilizers to two other firms through selective quotations for 38,000 and 68,338 50Kg bags at Kshs.1,630 and Kshs.1,635 per bag valued at Kshs.61,940,000 and Kshs.111,732,630 respectively. In total, the company ordered 284,921 bags of fertilizer valued at Kshs.474,074,830, despite the fact that storage capacity at the factory does not exceed 40,000 50Kg bags and annual usage is estimated at 18,000 50Kg bags of DAP and 22,000 50Kg bags of Urea, implying that the fertilizer ordered would be in use for the next seven(7) years. Had the company awarded the fertilizer supply tender to the lowest tenderers as per procurement rules, it would have saved Kshs.13,162,375.

Given the precarious financial position of the company, it is not clear how the Kshs.474 million fertilizer purchase will be financed, stored and properly used for the benefit of the company.

Proper explanation for this very unsatisfactory state of affairs has not been given by the management.

6. Cane Harvest

According to records held by the company, a total of 5,777Ha. of cane estimated to produce 462,160 tonnes of harvested cane was long overdue for harvesting. Although the Board of Directors in their 98th board meeting of 4 February 2005 directed the company management to harvest and deliver all over-mature cane to the factory within a period of two months and before closure of the factory for annual maintenance in May 2005, at the end of July 2005 this cane had not been harvested. The management explained their failure to harvest the cane as due to lack of adequate transport. Had the over-mature cane been harvested and milled at the right time and age, it could have fetched the company Kshs.2,172,152,000 at a rate of Kshs.4,700 per tonne.

7. Unauthorized Fabrication of Trailers – Kshs.17,251,050

During the year under review, the company fabricated fifteen (15) super single trailers at a total cost of Kshs.17,251,050. However, the expenditure was not included in the company's approved capital expenditure budget for the year 2004/2005 and therefore lacked the necessary budgetary provision and approval of the Board of Directors. Although there was shortage of transport units, the management has not explained why such a huge capital expenditure was undertaken without the necessary budgetary provision and approval of the Board of Directors, Parent Ministry and the Treasury in accordance with the requirements of section 12 of the State Corporations Act (Cap 446).

Opinion

Except for any adjustments that might be necessary arising from the matters discussed above, in my opinion, proper books of accounts have been kept and the financial statements give a true and fair view of the state of the financial affairs of the company as at 30 June 2005 and of its profit and cash flows for the year then ended, in accordance with the International Financial Reporting Standard (IFRS) and the Kenya Companies Act, (Cap 486).

E. N. MWAI
CONTROLLER AND AUDITOR GENERAL
Nairobi
12 April 2006

SOUTH NYANZA SUGAR COMPANY LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2005

	NOTE	2005 Kshs	2004 Kshs
Gross turnover		3,671,884,814	2,901,604,276
VAT and Sugar Development Levy		(708,775,771)	(558,546,691)
Net Turnover		2,963,109,043	2,343,057,585
Profit/(Loss) Before Taxation		287,105,873	48,061,671
Taxation for the year			
Profit/(Loss) after taxation		287,105,873	48,061,671
Profit/(Loss) brought forward		(1,623,311,519)	(1,753,410,772)
Prior year adjustment	12	(12,655,125)	82,037,581
Profit/(Loss) Carried forward		(1,348,860,771)	(1,623,311,519)

SOUTH NYANZA SUGAR COMPANY LIMITED

BALANCE SHEET AS AT 30 JUNE 2005

ASSETS		**2005**	**2004**
NON CURENT ASSETS	**NOTES**	**KSHS**	**KSHS**
Property, Plant & Equipment	2	2,160,722,399	2,324,794,306
Biological Assets	3	68,966,312	62,308,477
Services to outgrowers	5	565,306,183	543,988,670
		2,794,994,895	**2,931,091,453**
CURRENT ASSETS			
Stocks	4	424,575,380	405,301,998
Goods in transit	6(b)	50,390,804	36,706,852
Debtors & Prepayment	6(a)	183,178,466	210,343,393
Cash and Bank balances	7	53,747,763	18,449,665
		711,892,412	**670,801,907**
TOTAL ASSETS		**3,506,887,307**	**3,601,893,360**
SHARE HOLDERS' FUNDS & LIABILITIES			
CAPITAL AND RESERVES			
Share capital	10	353,969,675	353,969,675
Reserves	11	867,050,026	592,599,279
		1,221,019,701	**946,568,954**
NON-CURRENT LIABILITIES			
Loans	13	509,275,238	550,161,956
CURRENT LIABBILITIES			
Bank overdrafts	9	120,143,111	80,491,194
Loans due within one year	13	212,512,618	358,481,526
Creditors and accruals	8	1,443,936,639	1,666,189,729
		1,776,592,368	**2,105,162,449**
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		**3,506,887,307**	**3,601,893,360**

The financial statements on pages 12 to 24 were approved by the Board of Directors on 29th September 2005 and were signed on its behalf by: -

Ambrose Otieno **Managing Director**

Elly Otondi **Chairman**

Notes in page 16 to 23 form part of these accounts

SOUTH NYANZA SUGAR COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2005

	Share Capital Kshs	Revaluation Reserve Kshs	Retained Earnings Kshs	Total Equity Kshs
As previously stated	353,969,675	2,215,910,798	(1,753,410,772)	816,469,701
Prior year adjustment (Note 12)	-		82,037,581	82,037,581
At 1 July 2003				
As restated	353,969,675	2,215,910,798	(1,671,373,191)	898,507,282
Release of capital reserves				
Relating to depreciation	-	-	-	-
Profit for the year	-	-	48,061,672	48,061,672
As at 30 June 2004	353,969,675	2,215,910,798	(1,623,311,519)	946,568,954
At 1 July 2004				
As previously stated	353,969,675	2,215,910,798	(1,623,311,519)	946,568,954
Prior year adjustment (Note 12)	-		(12,655,125)	(12,655,125)
As restated	353,969,675	2,215,910,798	(1,635,966,645)	933,913,829
Release of capital reserves				
Relating to depreciation	-	-	-	-
Profit for the year	-	-	287,105,873	287,105,873
At 30 June 2005	353,969,675	2,215,910,798	(1,348,860,771)	1,221,019,701

SOUTH NYANZA SUGAR COMPANY LIMITED
CASH FLOW STATEMENT AS AT 30.6.05

	2005	2004
Cash flows from operating activities		
Net profit/(loss) before tax & provisions	**287,105,873**	**48,061,671**
Adjustments for:		
Depreciation	226,784,011	226,839,083
Unrealized Forex (gains)/loss	(509,944)	17,248,245
Interest income	(33,832,991)	(36,902,395)
Interest expense (loans)	47,017,863	63,123,403
Gain on disposal of assets	-	-
Prior year adjustment	(12,655,125)	82,037,581
Cash generated from operations before working capital changes	**513,909,685**	**400,407,588**
(Increase)/Decrease in standing cane	(6,657,835)	(2,609,160)
(Increase)/Decrease in stocks	(19,273,382)	65,503,941
(Increase)/Decrease in goods in transit	(13,683,952)	(29,449,609)
(Increase)/Decrease in debtors	27,164,927	(129,231,121)
(increase)/Decrease in services to ourgrowers	(21,317,513)	(129,915,727)
Increase/(Decrease) in creditors	(263,920,756)	34,496,675
Net Cash flow from operating activities	**216,221,173**	**209,202,587**
Cash flows from investing activities		
Interest received	34,910,476	37,835,759
Interest paid	(9,134,653)	(28,096,848)
Realized foreign exchange loss	(4,043,613)	(6,394,998)
Proceeds from sale of fixed assets	750,000	-
Purchase of fixed assets	(56,201,569)	(176,649,127)
Net cash flow from investing activities	**(33,719,359)**	**(173,305,214)**
Cash flows from financing activities		
Proceeds from long-term borrowing	48,241,366	167,607,406
Loan Repayments	(235,096,998)	(110,132,923)
Net cash flows used in financing activities	**(186,855,632)**	**57,474,483**
Net increase/(decrease) in cash & cash equivalents	**(4,353,818)**	**93,371,857**
Cash & cash equivalents at the beginning of the period	(62,041,530)	(155,413,387)
Cash & cash equivalents at the end of the period	**(66,395,349)**	**(62,041,530)**

NOTES TO THE ACCOUNTS FOR YEAR TO 30 JUNE 2005

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the International Financial Reporting Standards. The principal accounting policies adopted are as follows: -

Basis of Accounting
The accounts are prepared on the historical cost basis as modified to allow for revaluation of assets.

Stocks and Stores

Stocks of finished products are stated at the lower of cost and net realizable value. Cost comprises direct materials and labour, together with the relevant production overheads. Stores inventory are valued at weighted average cost.

Translation of Foreign Currencies
Foreign currency balances are translated at the mean rate of exchange ruling at the balance sheet date. Foreign exchange transactions during the year have been brought into the accounts at their actual cost in local currency. Any losses or gains from foreign transactions is transferred to profit and loss account.

Revenue Recognition
Income attributable to own harvested cane is recognized at fair value at the point of harvest which is determined based on the cane price existing in the market less point of sale costs. Income from purchased and processed cane is recognized upon delivery or collection of product by customers during the year and stated net of Value Added Tax (VAT) and Sugar Development Levy (SDL). SDL does not apply to molasses sales.

Depreciation Rates
Property, plant and equipment are stated at cost or professionally revalued amounts less accumulated depreciation. Depreciation is calculated on a strain line basis at annual rates estimated to write-off the Carrying values of the assets over their expected useful lives.

Motor cycles	50%
Land development/roads	2%
Buildings	4%
Factory plant & Machinery	6%
Tractors & trailers	15%
Motor vehicles	20%
Heavy trucks	20%
Furniture & Equipment	10%
Temporary buildings	10%

No depreciation has been provided on land and capital work in progress.

Turnover
Represents sales to customers and excludes Value Added Tax and Sugar Development Levy.

Cost of Growing Cane
This is valued at the direct cost of growing cane not harvested at the balance sheet date.

Note 2

SOUTH NYANZA SUGAR COMPANY LIMITED

SCHEDULE OF PROPERTY, PLANT & EQUIPMENT
2004/05 FINANCIAL YEAR

	LAND	BUILDINGS	PLANT & MACHINERY	TRAILERS & TRACTORS	MOTOR VEHICLES	OFFICE & OTHER EQUIPMENT	LAND DEVELOPMENT	ROADS & FENCING	WORK IN PROGRESS	total
COST/REVALUATION	**335,000,000**	**793,323,673**	**2,083,411,894**	**428,189,034**	**180,539,107**	**94,848,224**	**5,553,823**	**95,775,256**	**21,422,346**	**4,038,063,357**
As at 1st July 2004		1,369,343	729,002	51,459,727	-	8,956,907			1,687,716	64,202,697
Additions									(1,490,591)	(1,490,591)
Transfers/Capitalization										(156,389)
Disposals					(156,389)					
As at 30th June 2005	**335,000,000**	**79,469,3016**	**2,084,140,896**	**479,648,761**	**180,382,718**	**103,805,132**	**5,553,823**	**95,775,256**	**21,619,471**	**4,100,619,073**
DEPRECIATION										
As at 1st July 2004	-	(244,949,878)	(974,151,313)	(263,994,210)	(153,207,592)	(47,328,628)	(5,553,823)	(24,083,608)	-	(1,713,269,051)
Charge for the year	-	(24,851,784)	(146,786,955)	(30,251,228)	(9,767,302)	(7,472,567)	-	(7,654,176)	-	(226,784,012)
Disposals					156,389				-	156,389
As at 30th June 2005	-	**(269,801,662)**	**(1,120,938,267)**	**(294,245,438)**	**(162,818,505)**	**(54,801,195)**	**(5,553,823)**	**(31,737,784)**	-	**(1,939,896,673)**
NET BOOK VALUE										
As a 30th June 2005	**335,000,000**	**524,891,354**	**963,202,629**	**185,403,323**	**17,564,213**	**49,003,937**	**0**	**64,037,472**	**21,619,471**	**2,160,722,400**
As at 30th June 2004	**335,000,000**	**548,373,795**	**1,109,260,581**	**164,194,824**	**27,331,515**	**47,519,596**	**-**	**71,691,648**	**21,422,346**	**2,324,794,305**

3. **Valuation of Biological Assets**

This represents the actual cost incurred on growing cane in the Nucleus Estate less the cost written off to profit and loss account for the cane harvested. Standing cane has not been insured against the fire since insurance companies have declined to provide cover. No provision has been made in the accounts for any possible losses from fire.

	Kshs.2005	Kshs.2004
Opening Valuation	62,308,966	59,699,316
Add Costs	89,596,234	70,740,075
	151,905,200	130,439,391
Less Harvested	(82,938,888)	(68,130,914)
Closing Valuation	68,966,312	62,308,477

4. **Stocks**

	Kshs.2005	Kshs.2004
Finished Sugar	22,577,547	24,231,612
Sugar in process	7,950,934	15,911,905
Stores	394,046,898	365,158,481
	424,575,380	405,301,998

5. **Services to Ougtrowers – Kshs.439,562,581**

This represents the inputs and service charges rendered to our contracted cane farmers for cane not harvested at the Balance Sheet date. These include interest receivable by the company amounting to Kshs.412,872,406 which is recoverable from farmers at the time of payment for cane supplied.

	Kshs.2005	Kshs.2004
Accounts Receivable - suspense	32,784,872	34,709,078
Interest receivable	412,872,406	355,703,227
Provision for doubtful debts	(6,094,697)	(9,890,931)
	439,562,581	380,521,373

6. **Debtors and Prepayments**

	Kshs.2005	Kshs.2004
Trade Debtors	106,645,365	126,261,317
Other Debtors	107,201,011	99,268,074
	213,846,376	225,529,391
Less: Prov. For doubtful debts	(30,667,910)	(15,185,998)
	183,178,466	210,343,393

6 (b) **Goods in Transit.**

The balance represents part payments made in respect of importation of various spare parts for the manufacturing plant.

7. Cash and Bank balances

	2005 Kshs	2004 Kshs
Nairobi Petty Cash	98,977	19,715
Awendo Petty Cash	860,915	0
KCB Migori	10,556,909	7,771,951
BBK Kisii	1,729,778	10,156,815
KCB Migori Branch Deposit	501,184	501,184
BBK Kisii Branch Deposit	40,000,000	0
	53,747,763	**18,449,665**

8. Creditors and Accruals

	2005 Kshs	2004 Kshs
Trade Creditors	377,730,285	561,862,299
Non Trade Creditor		
Loans:		
Accrued loans interest	284,363,534	242,695,868
	284,363,534	242,695,868
Other Non Trade Creditors	781,842,820	861,631,562
	1,443,936,638	**1,666,189,729**

9. Bank Overdraft

	2005 Kshs	2004 Kshs
NBK Kisii	6,049,266	7,844,096
NBK Awendo	92,644,721	48,110,482
NBK Harambee Avenue	21,449,124	24,536,616
	120,143,111	**80,491,194**
Authorized Overdraft Limit	**100,000,000**	**100,000,000**

10. Share Capital

Due to capital restructuring undertaken as at 30/6/1987, the Government and other shareholders agreed to have their equity holding in the company reduced in order to absorb accumulated losses.

	Kshs.2005	Kshs.2004
I) **Authorized**		
18,000,000 Ordinary Shares of Kshs.20/= each	**360,000,000**	**360,000,000**
II) **Issued and fully paid**		
17,698,484 Ordinary Shares of Kshs.20/= each	**353,969,675**	**353,969,675**
III) **Composition of Shareholding**		
Government of Kenya	349,719,675	349,719,675
Industrial & Commercial Development Corporation	2,500,000	2,500,000
Industrial Development Bank	1,000,000	1,000,000
Mehta Group International	750,000	750,000
	353,969,675	**353,969,675**

11. Reserves

	Kshs.2005	Kshs.2004
Revaluation reserves	2,215,910,798	2,215,910,798
Retained earnings	(1,348,860,771)	(1,623,311,519)
	867,050,026	**592,599,279**

12. Prior year adjustment statement

	Kshs.2005	Kshs.2004
KSB loan interest write back	0	(156,555,900)
Stock valuation adjustments	12,655,125	59,432,825
Cane purchases adjustments	0	49,091,677
Provision for unbilled services (Outgrowers)	0	(34,006,184)
	12,655,126	**(82,037,580)**

13. Long Term Loan

The company is substantially financed by way of long tern loans. As at 30th June 2005, the balances stood as follows:

		Current 2005 Kshs.	Long Term 2005 Kshs.	Current 2004 Kshs.	Long Term 2004 Kshs.
i)	Government of Kenya	61,008,603		65,008,603	
ii)	NBK Debenture	0		36,944,444	
iii)	GOK/ODA	151,504,015		151,504,015	
iv)	CDC Group Plc	0		105,024,464	
v)	KSB (SDF)		509,275,238		550,161,956
		212,512,618	**509,275,238**	**358,481,526**	**550,161,956**

Explanatory Notes

(i) GOK Loans: these are five (5) Loans originally amounting to kshs.75,200,000. As at 30.6.05 all of these loans to the tune of Kshs.61,008,603 had matured but not yet paid to the Government and were periodically transferred to short term account thus leaving a nil balance as long term loans. Interest is payable at 11% pa with varying repayment schedules for each loan.

(ii) National Bank of Kenya debenture loan of kshs.70,000,000 was a conversion from existing overdraft. As at 30.6.05 the loan had been fully repaid.

(iii) The GOK/ODA loan of Kshs.151,504,015 constituted the value of capital equipment financed and imported through ODA for rehabilitation programme. The ODA funding was a grant to the Kenya Government which was on lent to the company at an interest rate of 12% per annum. Repayment was over a period of 7 years commencing 1st September 1993.

As at 30.6.05 the above amount of Kshs.151,504,015 had become due and payable to Kenya Government thus leaving a nil balance under long term loans.

(iv) CDC Group Plc loan of UK pounds 730,918.69 which is equivalent to Kshs.108,795,391.67 was fully paid.

(iv) The Kenya Sugar Board loans from the SDF amounting to Kshs.287,872,347.50 is at 5% interest, Kshs.170,402,890.85 for farmers arrears is at 3% while Kshs.51,000,000 for Roads & Infrastructure is interest free.

14. PROFIT/(LOSS) BEFORE TAXATION

	Kshs.2005	Kshs.2004
This is stated after charging		
Depreciation	226,784,011	226,839,083
Foreign exchange loss	3,533,669	23,643,243
Interest on loans	50,529,635	63,123,403
Legal expenses	28,076,839	36,742,535
Audit fees	900,000	950,000
Directors expenses	15,457,072	6,253,793
Donations	1,968,745	1,070,086
And after crediting:		
Interest received	34,910,476	37,835,759
Sundry income	2,927,138	4,974,606

15. Financial Position

The operating results for the period reflects an improvement over the previous year. The liquidity ratio (the ratio of current assets to current liabilities) still reflects negative working capital due to the maturity of the long-term loans.

16. Capital Commitments

Authorized but not contracted for	Kshs.43,721,170
Authorized and contracted for	Kshs.77,931,507

17. Contingent liabilities

A number of litigation cases regarding burnt over-mature cane which the company was unable to harvest and traffic accident cases have been lodged at the courts.
A summary of the cases are as follows:

Description	Running Cases	Appeals	Total
Farmers cane cases	102,548,525	8,233,007	110,781,532
Traffic cases	45,358,230	19,432,243	64,790,473
Staff dismissal cases	0	1,485,000	1,485,000
TOTAL	147,906,755	29,150,250	177,057,005

Taxation

Non payment of taxes as they fall due has resulted in penalties that are likely to receive a waiver from Kenya Revenue Authority.

18. Retirement Benefits Obligations

The company operates a defined benefit scheme for management staff. The assets of the scheme are held and administered independently of the company's assets. The scheme is funded by contributions from both the employees and the company. The company's contributions to the scheme are charged to the income statement in order to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the scheme.

The company also contributes to the statutory National Social Security Fund, a defined contribution scheme for which the company's obligation is limited to a specified contribution per employee per month. The company's contributions are charged to the income state in the year to which they relate.

19. TRADING, PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2005

	2005 Kshs	2004 Kshs
SALES		
Gross sugar sales	3,671,884,814	2,901,604,276
Less: VAT	(503,055,048)	(396,447,787)
SDF Levy	(205,720,723)	(162,098,904)
Net sales	**2,963,109,043**	**2,343,057,585**
Molasses sales	22,105,857	16,477,800
Turnover	**2,985,214,900**	**2,359,535,385**
Other income	2,927,138	4,974,606
Increase/(decrease) in sugar stocks	(5,007,962)	29,749,735
TOTAL INCOME	**2,983,134,076**	**2,394,259,726**
Less: Operating Costs		
Cost of cane	1,304,716,862	1,114,587,716
Agriculture Overheads	272,432,198	194,952,106
Factory costs	580,907,606	537,204,435
Total Direct Expenditure	**2,158,056,666**	**1,846,744,257**
Administration Departments Costs	439,285,455	395,638,494
Total operating costs and expenses (schedule A)	**2,597,342,121**	**2,242,382,751**
Trading Profit/(Loss)	**385,791,955**	**151,876,975**
Less: Loan Interest	(50,529,635)	(63,123,403)
Bank Overdraft Interest/Charges	(23,844,749)	(35,011,541)
Interest Received	34,910,476	37,835,759
Forex Gain/(Loss)	(3,533,669)	(23,643,243)
Profit/(loss) on Disposal of Fixed Assets	750,000	
Provisions (Doubtful Debts)	(25,444,391)	
Write offs (stock/bad debts)	(30,994,113)	(19,872,876)
NET PROFIT	**287,105,873**	**48,061,671**

SOUTH NYANZA SUGAR COMPANY LIMITED
SUMMARY OF COSTS AND EXPENSES – SCHEDULE A
2004/2005 FINANCIAL YEAR

S/N	CLASSES OF EXPENSES	2004/05 KSHS	2003/04 KSHS	VARIANCE KSHS	VAR %
1	Cane Purchases - Outgrowers	1,219,369,896	1,046,456,802	(172,913,094)	-17%
2	Cane Purchases - N/Estate	82,938,888	68,130,914	(14,807,974)	-22%
3	chemicals, stores and spares	457,947,703	318,744,605	(139,203,098)	-44%
4	Transport (hired)	265,162,399	228,605,562	(36,556,837)	-16%
5	Hire of other equipment	22,305,519	36,014,498	13,708,979	38%
6	Salaries and wages	681,914,973	596,619,345	(85,295,628)	-14%
7	Staff welfare expenses	27,620,329	21,379,006	(6,241,323)	-29%
8	Repairs and maintenance	20,024,032	28,043,587	8,019,555	29%
9	Depreciation	226,784,011	226,839,083	55,072	0%
10	Insurance	41,914,557	41,716,670	(197,887)	0%
11	Legal fees	28,076,839	36,742,535	8,665,696	24%
12	Fines and Imposts	236,915	0	(236,915)	
13	Audit fees	900,000	950,000	50,000	5%
14	Inland travel expenses	20,644,380	11,643,638	(9,000,742)	-77%
15	Overseas travel expenses	2,815,573	625,891	(2,189,682)	-350%
16	Water and electricity	14,970,984	20,644,465	5,673,481	27%
17	Taxes and Rates	2,749,675	2,552,516	(197,159)	-8%
18	Printing and Stationery	10,026,941	7,134,724	(2,892,217)	-41%
19	Telephone and Telex	9,397,693	11,492,044	2,094,351	18%
20	Machine Costs	4,434,777	(664,312)	(5,099,089)	768%
21	Other admin. Expenses	46,507,092	35,621,285	(10,885,807)	-31%
22	Bureau of Standards levy	400,000	1,250,000	850,000	68%
23	Use of other services	(17,210,189)	(20,892,464)	(3,682,275)	18%
24	Directors expenses	15,457,072	6,253,793	(9,203,279)	-147%
25	Supply of seed cane	72,667,944	81,582,483	8,914,539	11%
26	Donations	1,968,745	1,070,086	(898,659)	-84%
27	Brand packaging costs	38,620,429	41,076,948	2,456,519	6%
	TOTAL OPERATING EXPENSES	**3,298,647,177**	**2,849,633,704**	**(449,013,473)**	**-16%**
	RE - ALLOCATION OF OWN COSTS				
28	Services to Outgrowers	(611,708,822)	(536,526,865)	75,181,957	-14%
29	Standing cane account (N/Estate)	(89,596,234)	(70,724,087)	18,872,147	-27%
	TOTAL RECOVERIES	**(701,305,056)**	**(607,250,952)**	**94,054,104**	**-15%**
	NET OPERATING EXPENSES	**2,597,342,121**	**2,242,382,751**	**(354,959,369)**	**-16%**
	FINANCE CHARGES				
30	Bank overdraft charges	15,235,058	29,628,917	14,393,859	49%
31	Interest and Finance charges	59,139,326	68,506,027	9,366,701	14%
32	Unrealized Forex(Gains)/Losses	(509,944)	17,248,245	17,758,189	103%
33	Realized Forex(Gains)/Losses	4,043,613	6,394,998	2,351,385	37%
	OTHER CHARGES				
34	provisions(doubtful debts/other)	25,444,391	0	(25,444,391)	-100%
35	Write of - (Stocks, bad debts)	30,994,113	19,872,876	(11,121,237)	-56%
	TOTAL FINANCE CHARGES	**134,346,557**	**141,651,062**	**7,304,505**	**5%**
	GRAND TOTAL EXPENSES	**2,731,688,678**	**2,384,033,814**	**(347,654,863)**	**-15%**

FACTORY-P.O. Box 107 - 40405, Sare-Awendo
Tel: (059) 43620, 43004/5, 43009 Cell: 0722 205346, 0733 333348
Fax: (059) 43245
E-mail: administrator@sonysugar.co.ke