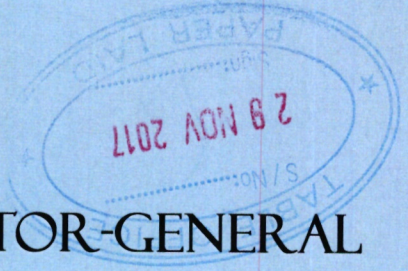


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Paper Laid by
the Leader of the
Majority Party
Hon. Aden Duale
on Wednesday
29/11/2017
13m*

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REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR
ENDED 30 JUNE 2016**



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NZOIA SUGAR COMPANY LIMITED

**ANNUAL REPORTS AND
FINANCIAL STATEMENTS**

30 JUNE 2016

NZOIA SUGAR COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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NZOIA SUGAR COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS

Hon. Joash Wamangoli - Chairman
Michael Kulundu - Ag. Managing Director
Timothy Tiampati - IDB Capital
Frederic Thrum - Fives Cail
Cabinet Secretary - Treasury
Cabinet Secretary - Agriculture
Kennedy Simiyu Juma
Rebecca Mulongo
Mary Nawire Waiswa
Dr. John Murumba Chikati
Hon. Raphael Wanjala

COMPANY SECRETARY

Benson Khwatenge
Certified Public Secretary (Kenya)
P O Box 285 - 00100
Bungoma

REGISTERED OFFICE

Nzoia Sugar Company Limited
Off Webuye – Malaba Road
5 kms from Bukembe Junction
P O Box 285 - 00100
Bungoma

PRINCIPAL AUDITORS

The Auditor General
P O Box 30084 - 00100
Nairobi

DELEGATED AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki way, Muthangari
P O Box 40092 – 00100
Nairobi

BANKERS

National Bank of Kenya Limited
Bungoma Branch
P O Box 25 – 50200
Bungoma

The Co-operative Bank of Kenya Limited
Bungoma Branch
P O Box 1964 – 50200
Bungoma

Kenya Commercial Bank Limited
Bungoma Branch
P O Box 380 – 50200
Bungoma

ADVOCATES

Olotch & Company Advocates
P O Box 7146 – 00100
Nairobi

Wekesa & Simiyu Advocates
P O Box 10299 – 00100
Nairobi

Buluma & Company Advocates
P O Box 6152 – 30100
Eldoret



NZOIA SUGAR COMPANY LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2016

The directors present their report together with the audited financial statements of Nzoia Sugar Company Limited (the "Company") for the year ended 30 June 2016, which shows its state of affairs.

PRINCIPAL ACTIVITIES

The principal activities of the company are the production and sale of sugar.

RESULTS

	Shs'000
Loss before taxation	(2,890,726)
Taxation charge	(313,729)
	<hr/>
Loss for the year	(3,204,455)
	<hr/> <hr/>

DIVIDENDS

The directors do not recommend a dividend in respect of the year (2015 – Nil).

PRODUCTION

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

	Sugar bagged (Tonnes)	Cane milled (Tonnes)	Outturn
2016	59,218	706,173	11.9
2015	86,821	924,721	10.7
2014	49,648	596,186	12.0
2013	55,535	680,364	12.3
2012	64,669	690,998	10.7
2011	61,886	652,170	10.5
	<hr/> <hr/>	<hr/> <hr/>	

DIRECTORS

The current directors of the company are listed on page 2.



NZOIA SUGAR COMPANY LIMITED

REPORT OF THE DIRECTORS (Continued)

AUDITORS

The Auditor General is responsible for the statutory audit of the company's books of account in accordance with section 14 and section 39(i) of the Public Audit Act, 2003 which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

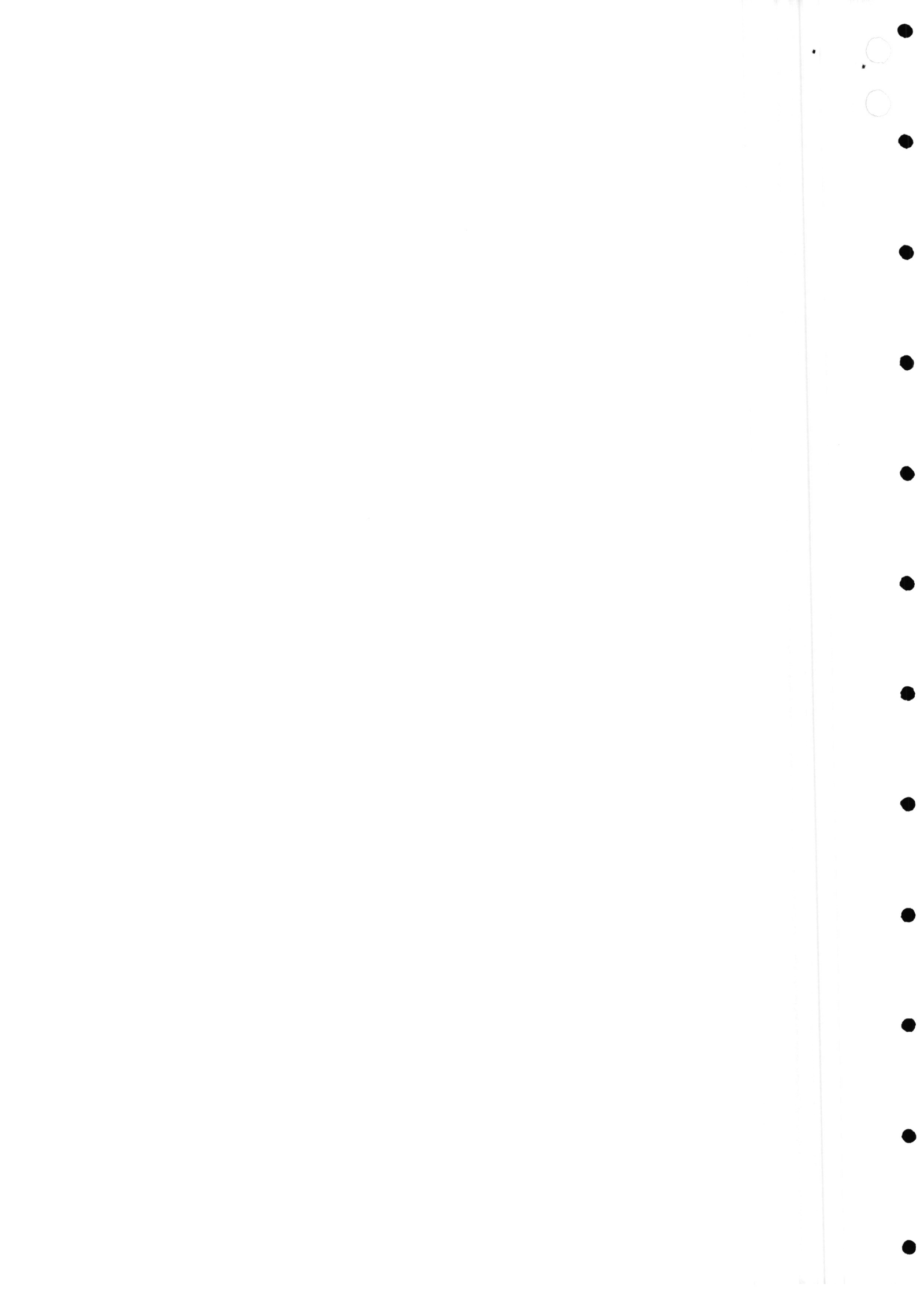
Deloitte & Touche, who were nominated by the Auditor General, carried out the audit of the financial statements for the year ended 30 June 2016.

BY ORDER OF THE BOARD


Secretary

Bungoma

18 July 2017



NZOIA SUGAR COMPANY LIMITED

CHAIRMAN'S 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 June 2016. The performance of the company has continued to be impacted negatively by the two key industry challenges namely; cheap illegal imports and low 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

BRAZIL.

Brazil's production is forecast to rise 2.4 million tons to 37.1 million on favorable weather and a lower percentage of sugarcane being converted to ethanol (forecast at 57 percent compared to 59 percent the year before). Brazil remains the largest producer and exporter of sugar with exports projected up 1.8 million tons to 26.1 million on steady higher demand and greater exportable supplies. Consumption is down slightly on lower consumer purchases of processed foods.

INDIA

India's consumption is forecast to rise marginally to record 27.2 million tons. Production is forecast to drop 2.2 million to 25.5 million tons due to lower area and yield. Drought conditions encouraged farmers to keep existing cane production rather than planting new cane. With higher consumption and lower production, stocks are expected to be down 18%.

THAILAND

Thailand's production is forecast to increase 360,000 tons to 10.1 million as an uptick in area offsets lower yields affected by drought. Higher demand is driving exports up 2 percent to a record 9.0 million tons while stocks are drawn down. Consumption continues to trend higher on growing household and industrial uses.

CHINA

China's consumption, projected at a record 17.8 million tons continues to trend higher bringing stocks down to 3.2 million. Production is forecast to decline to 8.2 million tons on lower area. Over the last couple of years, higher land and labour costs and the cancellation of minimum purchase prices in some areas have resulted in growers switching to other crops.

Source: <https://apps.fas.usda.gov/psdonline/circulars/sugar.pdf>

Dividends

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

Future Outlook

The company looks forward to better performance based on changes being made. The board has operationalised 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 quality cane supply, improving cane yields and enhancing production volumes. Market positioning, diversification and efficiency will be key drivers in coming years as other opportunities are being explored.

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



NZOIA SUGAR COMPANY LIMITED

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 30th June, 2016. The year under review was challenging with low production volumes because of crushing over mature swamp cane of early maturing variety. The TC: TS in the year under review averaged 11.93. Turnover volumes deteriorated to 62,594 tons compared to same period last year (83,150 tons) though the prices were still depressed due to presence of imported sugar in the markets. Management has also embarked on cost cutting exercise to reduce the cost of production and improving factory efficiencies.

Though sugar prices are unstable in the year under review, management expects to increase revenues from the improved production by an aggressive marketing campaign targeting sale of branded sugar.

MARKET REVIEW

International Market

Global sugar consumption for 2016/17 is forecast at a record 174 million metric tons (raw value), exceeding production and drawing stocks down to the lowest level since 2010/11. Production is up 4 million tons to 169 million as gains in Brazil and the European Union more than offset a decline in India. With growing demand, imports are forecast up 1.2 million tons.

The rising pace of global consumption has been sustained by drawing down stock levels in recent years. Consequently, stocks are approaching what appear to be historically low levels. In fact, world raw sugar prices, after falling for over a year and bottoming at less than Kes.463.50 in August 2015, are trending higher to near Kes.716.30 in May 2016. As prices react to high demand and as the Brazilian real struggles to find equilibrium against the dollar, market returns are needed to provide incentives for producers to catch up with demand.

Local Market

In the year under review, mills have been grappling with low production capacities as a result of breakdowns, lack of mature cane, cane poaching, industrial unrest and presence of illegal sugar imports in the market. Millers also grappled with high cost of production that has made Kenyan market attractive to cheap imports from other COMESA Countries. This has made millers unable to offload their produce at favorable prices.

During the year under review, several consignment of smuggled sugar were impounded with the law enforcers impounding 200 bags of smuggled sugar bagged into Nzoia (99) and Butali(101) bags.

Privatization of state owned millers is back on track after Transition Authority withdrew a suit it had filed concerning assets transfer to county Governments. Privatization Commission had invited bids that closed on 15th April 2016 that saw some Members of Parliament went to court and obtained restraining orders that were granted that not all stakeholders were consulted. The process is expected to improve efficiency and inject new capital which will translate to low cost of production.

The Sugar Directorate has plans to install 11 cane testing units in all sugar mills so as to pay farmers on sucrose content as opposed to weight (tonnages).

Production of Sugarcane at field level has been declining as a result of deteriorating soil fertility and low adoption of high yielding sugar cane varieties that mature early. Land subdivision has continued to reduce land available for cane development leading to frequent shortages of mature cane. Shortage of required fertilizers has also had a huge impact on declining yields.

The Company had enough mature cane that was available in the quarter under review with some being given to Mumias Sugar Company who currently are experiencing a cane shortage. The Company's average cane price was Kes. 3,000 per Metric ton.

ECONOMIC REVIEW

The economy grew by 5.9% in the first quarter of 2016 compared to 5.0% in the first quarter of 2015. The rebound was in accommodation and food services which grew by 12% (-11% in 1Q15) and aligned with a positive performance across all sectors of the economy.



NZOIA SUGAR COMPANY LIMITED

MANAGING DIRECTOR'S REPORT (Continued)

Economic activity tends to slow in the run up to an election year in cognizance of political risk. However, government spending on infrastructure projects to fulfill electoral promises may counter this slowdown and sustain economic growth at between 5-6% that we have witnessed in recent quarters.

The "Brexit" contributed to a sharp appreciation of the KES against the British Pound up 6.1% in the quarter and +10.1% year to date. This gain can be attributed to forex positions taken in anticipation of lower demand for the pound on the United Kingdom's decision to exit the European Union.

Inflation outlook

Lower than expected long rains in March to May 2016 and the declaration of Kes.1bn worth of grain in the strategic food reserves as unfit for human consumption suggests higher food inflation going into the second half of 2016. In addition, a 50% increase in the road maintenance levy charged on petroleum products coupled with a potential recovery in oil prices further support an upsurge in inflationary pressures.

Total turnover for the period under review was Kes.4.2 billion net of the sugar development levy and VAT (2015-Kes 5.4 billion) compared to budget of Kes.5.4 billion net of taxes. The sales were below target due to low production occasioned by poor recoveries at the factory, strike by the contractors' drivers and milling of over mature cane.

Prices of sugar were fairly unstable in the 4thquarter due to presence of imports. Prices of sugar averaged Kes 66,320 per ton net of taxes. Gross profit percentage declined to 16.1% in the period under review from a budget of 35% due to high cost of production that stood at Kes 87,826 per ton net of taxes. The company made negative earnings before tax and interest of Kes.2 billion (2015-810 million) against budgeted earnings before tax of Kes 202million.

Achievements for the twelve month ended 30th June 2016 are as follows;

- Installation of syrup clarifier for production of mill white sugar.
- Entered into an MOU with Mumias Sugar Company to harvest over mature cane in lowlands within western region.
- Partnered with KeRRA and County Government for roads maintenance.
- Commissioned 3rd Packaging machine.
- Maintained the East African's choice super brand.
- Acquired the IChemE Global awards that will enable Nzoia use the badge of quality and excellence in all its promotional materials.
- Scooped the best position in the ISO certified firms exhibition in Nairobi.
- Improved brand visibility by acquisition of 28 tons truck and penetrated new markets.

Challenges for the period under review were as follows;

- The Company bagged 59,147 tons of sugar. The TC:TS ratio deteriorated from 10.65 in the same period in 2015 to 11.93 in the period under review.
- Influx of illegal imported sugar causing decline in prices of sugar thus resulting in poor cash flows.
- Cane poaching in outgrowers.
- Decreased cane yields from an average of 75TCH in same quarter last year to 71 TCH in the quarter under review.
- Dry spell hampering cane planting in the 3rdquarter that will affect cane supply in the future.
- Inadequate application of fertilizers and herbicides that may affect yields and quality of cane delivered to factory for crushing in future.
- Inadequate machines for land preparation and spreading of scum.
- Strained cashflows negatively affected marketing and advertising campaign and hampered achievement of development budget to some extent.
- Contractors driver strikes that hampered production and transportation of cane to the factory.



NZOIA SUGAR COMPANY LIMITED

MANAGING DIRECTOR'S REPORT (Continued)

WAY FORWARD

The company plans to counter the various challenges as follows: -

a) Short term measures

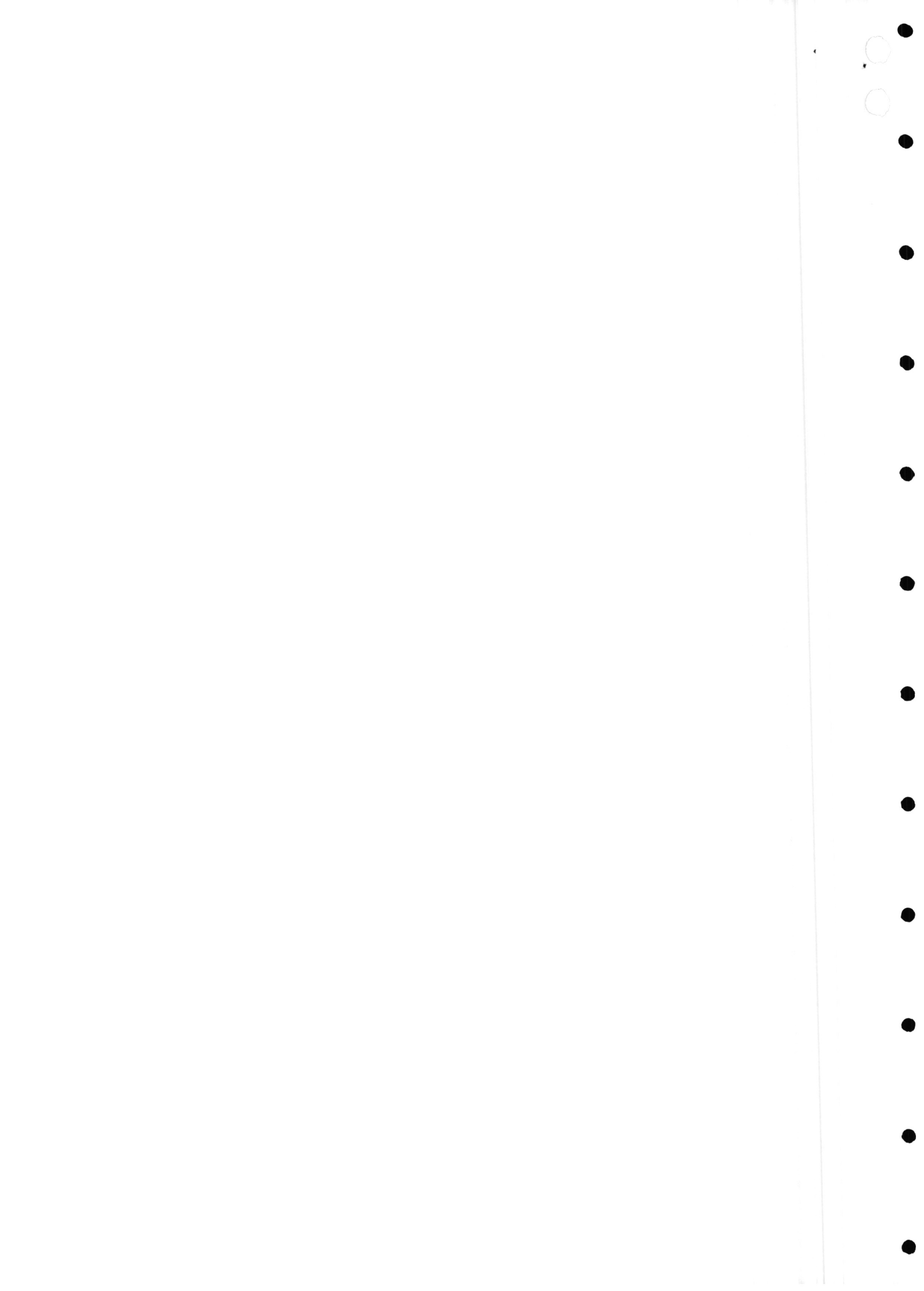
- Improve factory efficiencies.
- Launch of branded mill white sugar.
- Brand visibility by distribution of branded sugar to new markets.
- Maintain and ensure branded ratio of sugar at 20% of total production.
- Reduction of operating expenses by 10% of the budget in the next financial year by implementing cost reduction strategies.
- No filling of vacant positions on staff exits unless on very critical jobs.
- Partner with NHIF to reduce dependence on clinic on outpatient services.
- Staff rationalization.

b) Long term measures

- Automation of business processes through acquisition of ERP which will cut stationery, duplication, postage and printing costs by estimated 30% and improve efficiency.
- Build on the newly acquired super brand status.
- Blend our cane in both Nucleus Estates and Outgrowers at a ration of 60:40 being early maturing variety and high yielding ordinary cane.
- Revenue diversification to increase alternative revenue streams in area of Agribusiness and value addition for sale in domestic market.
- Strengthening brand and improve distribution channels that will improve revenue.
- Liming of acidic soils in Nucleus Estate and Outgrowers.
- Improve on mud filtration system to avoid loss of sugar in mud.
- Procurement of 2 packaging lines to increase branded sugar packaging.



MICHAEL KULUNDU
MANAGING DIRECTOR



NZOIA SUGAR COMPANY LIMITED

CORPORATE GOVERNANCE STATEMENT

Nzoia Sugar Company is established by and derives its authority and accountability from the State Corporations Act Cap 446 and the Companies 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 conduct which gives senior management the responsibility of ensuring legal and statutory compliance. In addition, the Code deals with situations relating to best practices as well as those situations that may give rise to conflict of interest in the conduct of business.

Corporate Governance

- Consultation between the Chairman of the board, Managing Director and parent ministry were made during the year under review.
- Company had all necessary licenses to operate e.g. Sugar Miller License.
- Key board decisions were forwarded to the parent ministry for necessary approvals before implementation.
- Board charter was in place.
- Board received adequate information in time for decision making and carried out visits to its Nucleus Estate and outgrowers.
- ISO Recertification Audit was successfully carried out in the course of the year under review.
- The Board was fully constituted in the year under review.
- Consultant was engaged to facilitate the company to review its strategic plan.
- Approved the annual procurement plan.



NZOIA SUGAR COMPANY LIMITED

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 government, customers, suppliers, employees as well as the community. The Company has a corporate social responsibility policy in place.

During financial year 2015/2016, 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:

- Donated Ksh. 145,000 to St. Christopher Mabanga Girls Secondary School for multipurpose hall.
- Donated 4 engraved trophies to Masinde Muliro University of Science and Technology Ksh 28,000.00
- Donated 5 trophies to Kibabii College for their sports and cultural week event.
- Supported International Literacy day by donating Ksh. 28,000.00 for refreshments.
- Donated Ksh, 58,500.00 to Keasler Childrens' Home to purchase blankets and sugar for the children
- Donated Ksh. 106, 150 to Nzoia Industrial Primary School to buy blankets after fire tragedy.
- Donated roofing materials to Sikulu Friends in Tongaren- Ksh 158 000.

Healthcare

The company has continued to support the community by offering medical services on an emergency basis 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 also donated Shs 50,000 to "Health for All Initiative" organization to support a medical camp which was held on 3 April 2016 and 4 April 2016 at Bumula and Sirisia Sub-counties.

Donated Ksh 25,000.00 to St Paul's Kibabii Diploma teachers training college's community health week for purchase of refreshments and sanitary items.

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. For instance, the company donated 1500 tree seedlings to Nzoia Sugar Girls Secondary School for use during tree planting day on 17th June, 2016.

Calamities

- Donated Ksh. 1,299,850.00 to Nzoia Industrial Primary School following a fire tragedy towards purchase of school uniforms, blankets and construction of 5 temporary structures.
- Donated about Ksh. 3,584,883.00 towards fire tragedy at Nzoia Girls' Secondary School.



NZOIA SUGAR COMPANY LIMITED

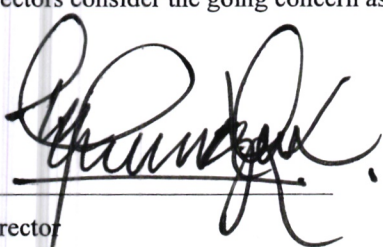
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure 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 Kenyan 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.

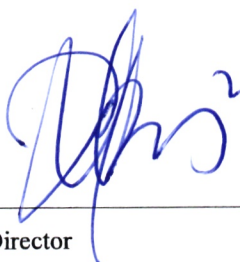
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the 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.



Director

18 July 2017



Director



INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL ON NZOIA SUGAR COMPANY LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Nzoia Sugar Company Limited (the "company"), set out on pages 15 to 49 which comprise the statement of financial position as at 30 June 2016, and the 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.

Directors' Responsibility for the Financial Statements

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 Kenyan Companies Act, and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL ON
NZOIA SUGAR COMPANY LIMITED (Continued)

Report on the Financial Statements (continued)

Basis for Qualified Opinion

1. *Property, plant and equipment*

The company's property, plant and equipment held at 30 June 2016 on the statement of financial position included a plant with a carrying value of Shs 295,697,000 based on a valuation carried out in June 2015 by Real Appraisal Limited, registered valuers. This plant was acquired in the period between 1990 and 1993 when the company undertook an expansion of the factory's cane crushing capacity. The expansion was financed by Arkel International LLC and guaranteed by the Government of Kenya. However, the expansion program was not completed and the plant has been lying idle since acquisition and has not generated any income for the company. It was noted in the valuation report that a proportion of these items are in a deteriorated state. In the circumstances, the company should have performed an impairment assessment to determine whether an impairment charge is required to reduce the carrying value of the plant to its recoverable amount in these financial statements.

2. *Payables*

The company's payables carried on the statement of financial position at 30 June 2016 included an amount of Shs 820,216,000 (2015: Shs 658,662,000) due to the Agriculture and Food Authority related to unpaid principal and penalties for Sugar Development Levy as disclosed in note 20 of these financial statements. As at the date of our audit report, we had not received an independent confirmation or statement from the Agriculture and Food Authority regarding the outstanding Sugar Development Levy. There were no alternative procedures we could perform to provide the necessary assurance on the accuracy and validity of the outstanding Sugar Development Levy. As a result, we were unable to satisfy ourselves on the accuracy and validity of the payables balance and could not determine whether any adjustments might have been found necessary in respect of the recorded payable balances.

3. *Provisions and contingent liabilities*

As at the date of our audit report, we had not received independent confirmations from all the Company's lawyers with regard to on-going litigations. There were no alternative procedures we could perform to establish the impact that outstanding cases could have on these financial statements. We were therefore not able to establish the impact, if any, that the information held by Company's lawyers could have on these financial statements including whether additional provisions should be recognised or contingent liabilities disclosed.

Qualified Opinion

In our opinion, except for the effect of the matters described in the basis of qualified opinion paragraph above, the financial statements give a true and fair view of the state of financial affairs of the company as at 30 June 2016 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Emphasis of matter

Without further qualifying our opinion, we draw your attention to note 3 to the financial statements which indicates the Company had a shareholders' deficit of Shs 31,755,577,000 (2015: Shs 28,527,442,000) and current liabilities exceeded current assets by Shs 40,946,862,000 (2015: Shs 38,038,736,000). The Company has also defaulted on repayment of both principal and interest on borrowings due to the National Treasury and the Agriculture and Food Authority totalling Shs 38,062 million (2015: Shs 36,955 million). This situation indicates the existence of a material uncertainty which may cast doubt on the company's ability to continue as a going concern. These financial statements have however, been prepared on the going concern basis.





OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NZOIA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Nzoia Sugar Company Limited set out on pages 15 to 49, which comprise the statement of financial position as at 30 June 2016, and the statement of 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 have been audited on my behalf by Deloitte & Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act 2015 and submit the report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

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

assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Property, Plant and Equipment

The Company's property, plant and equipment balance of Kshs.12,685,788,000 held as at 30 June 2016 as disclosed on the statement of financial position includes a plant with a carrying value of Kshs.295,697,000 based on a valuation carried out in June 2015 by a local valuation company. The plant was acquired in the period between 1990 and 1993 when the company undertook an expansion of its factory's cane crushing capacity. The expansion was financed by Arkel International LLC and guaranteed by the Government of Kenya. However, as previously reported, the expansion program was not completed and the plant has been lying idle since acquisition and has thus not generated any income for the company. It was noted in the valuation report that a proportion of these items are in a deteriorated state.

In addition, the Company does not maintain a comprehensive fixed assets register that incorporates all pertinent fixed assets transactions, such as disposals, impairment of assets and transfer of capital work-in-progress items to other asset classes.

In the circumstances, the Company should have performed an impairment assessment of its assets to determine whether an impairment charge to reduce the carrying value of the plant to its recoverable amount in these financial statements was due.

2. Trade and Other Payables

The Company trade and other payables balance of Kshs.3,892,289,000 as at 30 June 2016 includes an amount of Kshs.820,216,000 (2015:Kshs.658,662,000) due to the Agriculture and Food Authority related to unpaid principal and penalties for Sugar Development Levy as disclosed in Note 20 to the financial statements. As at the date of this audit report, no independent confirmation or statement from the Agriculture and Food Authority regarding the outstanding Sugar Development Levy had been received. Alternatively, no procedures were performed to provide the necessary assurance on the accuracy and validity of the outstanding Sugar Development Levy.

As a result, it has not been possible to confirm the accuracy and validity of the payables balance of Kshs.3,892,289,000 or determine whether any adjustments might have been found necessary in respect of the recorded payable balances.

3. Provisions and Contingent Liabilities

As at the date of the audit report, independent confirmations from all the company's lawyers with regard to on-going litigations had not been received. There were no alternative procedures that could be performed to establish the impact that the outstanding cases could have had on the financial statements, including whether additional provisions should have been recognized or contingent liabilities disclosed.

4. Non-Remittance of Taxes and Other Levies

During the year under review, the Company did not remit PAYE for the period from August 2015 to February 2016 to the tax authorities. Further, the Company made late remittances of PAYE for March 2016 and July 2015 and completely failed to remit other statutory deductions such as Local Authority Cess, Value-Added-Tax as well as Savings and Credit Co-operatives Society SACCO deductions.

This omission has exposed the Company to accrued penalties and interest on outstanding balances, which sums totalled Kshs.1,398 million as at 30 June 2016 (2015: Kshs.811 million).

Qualified Opinion

In my opinion except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Nzoia Sugar Company Limited as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act, No. 17 of 2015.

Emphasis of the Matter

Going Concern

Note 3 to the financial statements indicates the Company had a shareholders' deficit of Kshs.31,755,577,000 (2015: Kshs.28,527,442,000) and current liabilities exceeded current assets by Kshs.40,946,862,000 (2015: Kshs.38,038,736,000). The Company has also defaulted on repayment of both principal and interest on borrowings due to the National Treasury and the Agriculture and Food Authority totalling to Kshs.38,062,015 (2015: Kshs.36,955,390).

This situation indicates the existence of material uncertainty which may cast doubt on the company's ability to continue as going concern. The financial statements have,


however, been prepared on the going concern basis on assumption that it will continue to get financial support from government and creditors.

My opinion is not qualified in respect to this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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



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

Nairobi

03 October 2017

NZOIA SUGAR COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

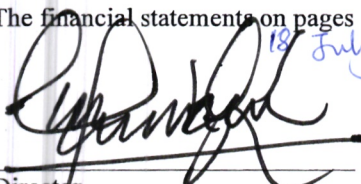
	Notes	2016 Shs'000	2015 (restated) Shs'000
Revenue	4	4,232,484	5,389,376
Fair value gain/(loss) on biological assets	13	135,542	(5,828)
Operating income		4,368,026	5,383,548
Cost of sales		(3,908,834)	(4,223,688)
Gross profit		459,192	1,159,860
Other operating income		55,669	105,374
Marketing and distribution costs		(25,203)	(17,447)
Administrative expenses		(2,506,764)	(2,079,596)
Finance income	5(a)	10,461	21,175
Finance costs	5(b)	(884,081)	(1,197,665)
Loss before taxation	6	(2,890,726)	(2,008,299)
Taxation charge	8	(313,729)	-
Loss for the year		(3,204,455)	(2,008,299)
OTHER COMPREHENSIVE INCOME			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Gain on revaluation of property		-	5,225,343
Deferred tax on gain on revaluation of property		-	(1,567,603)
Defined benefit scheme remeasurement charge	18(b)	(23,680)	(57,537)
Other comprehensive (loss)/income		(23,680)	3,600,203
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(3,228,135)	1,591,904

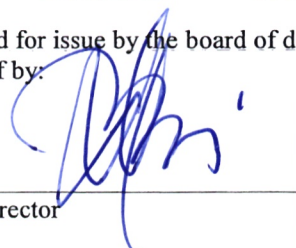


NZOIA SUGAR COMPANY LIMITED
 STATEMENT OF FINANCIAL POSITION
 AS AT 30 JUNE 2016

	Notes	2016 Shs'000	2015 (restated) Shs'000
ASSETS			
Non current assets			
Property, plant and equipment	9	12,685,788	12,905,505
Intangible assets	10	1,340	1,914
Due from out-growers	11	6,460	26,555
Biological assets	13	327,459	250,895
		<u>13,021,047</u>	<u>13,184,869</u>
Current assets			
Due from out-growers	11	12,920	53,110
Inventories	12	536,986	835,331
Biological assets	13	142,748	269,998
Trade and other receivables	14	143,133	119,156
Defined benefit scheme asset	18(b)	9,247	33,111
Taxation recoverable	8(c)	72	822
Short term deposits	15	19,231	45,232
Cash and bank balances		116,239	17,014
		<u>980,576</u>	<u>1,373,774</u>
Total assets		<u><u>14,001,623</u></u>	<u><u>14,558,643</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	16	543,000	543,000
Revaluation surplus		6,328,656	6,660,937
Retained deficit		(38,627,233)	(35,731,379)
Shareholders' deficit		<u>(31,755,577)</u>	<u>(28,527,442)</u>
Non current liabilities			
Deferred taxation	17	3,387,721	3,074,742
Borrowings	19(a)	442,041	598,833
		<u>3,829,762</u>	<u>3,673,575</u>
Current liabilities			
Retirement benefits obligations	18(a)	323,563	365,312
Borrowings	19(a)	37,619,974	36,356,557
Trade and other payables	20	3,892,289	2,627,895
Provision for staff leave pay	21	91,612	62,746
		<u>41,927,438</u>	<u>39,412,510</u>
Total equity and liabilities		<u><u>14,001,623</u></u>	<u><u>14,558,643</u></u>

The financial statements on pages 15 to 49 were approved and authorised for issue by the board of directors on 18 July 2017 and were signed on its behalf by:


 Director


 Director



NZOIA SUGAR COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 30 JUNE 2016

	Share capital Shs'000	Revaluation surplus Shs'000	Retained deficit Shs'000	Total Shs'000
At 1 July 2014	543,000	3,003,197	(33,665,543)	(30,119,346)
Total comprehensive income	-	3,657,740	(2,065,836)	1,591,904
At 30 June 2015	543,000	6,660,937	(35,731,379)	(28,527,442)
At 1 July 2015				
- As previously stated	543,000	7,571,515	(35,731,379)	(27,616,864)
- Prior year adjustment (note 28(b))	-	(910,578)	-	(910,578)
As restated	543,000	6,660,937	(35,731,379)	(28,527,442)
Total comprehensive loss	-	-	(3,228,135)	(3,228,135)
Transfer of excess depreciation	-	(474,687)	474,687	-
Deferred tax on excess depreciation	-	142,406	(142,406)	-
At 30 June 2016	543,000	6,328,656	(38,627,233)	(31,755,577)

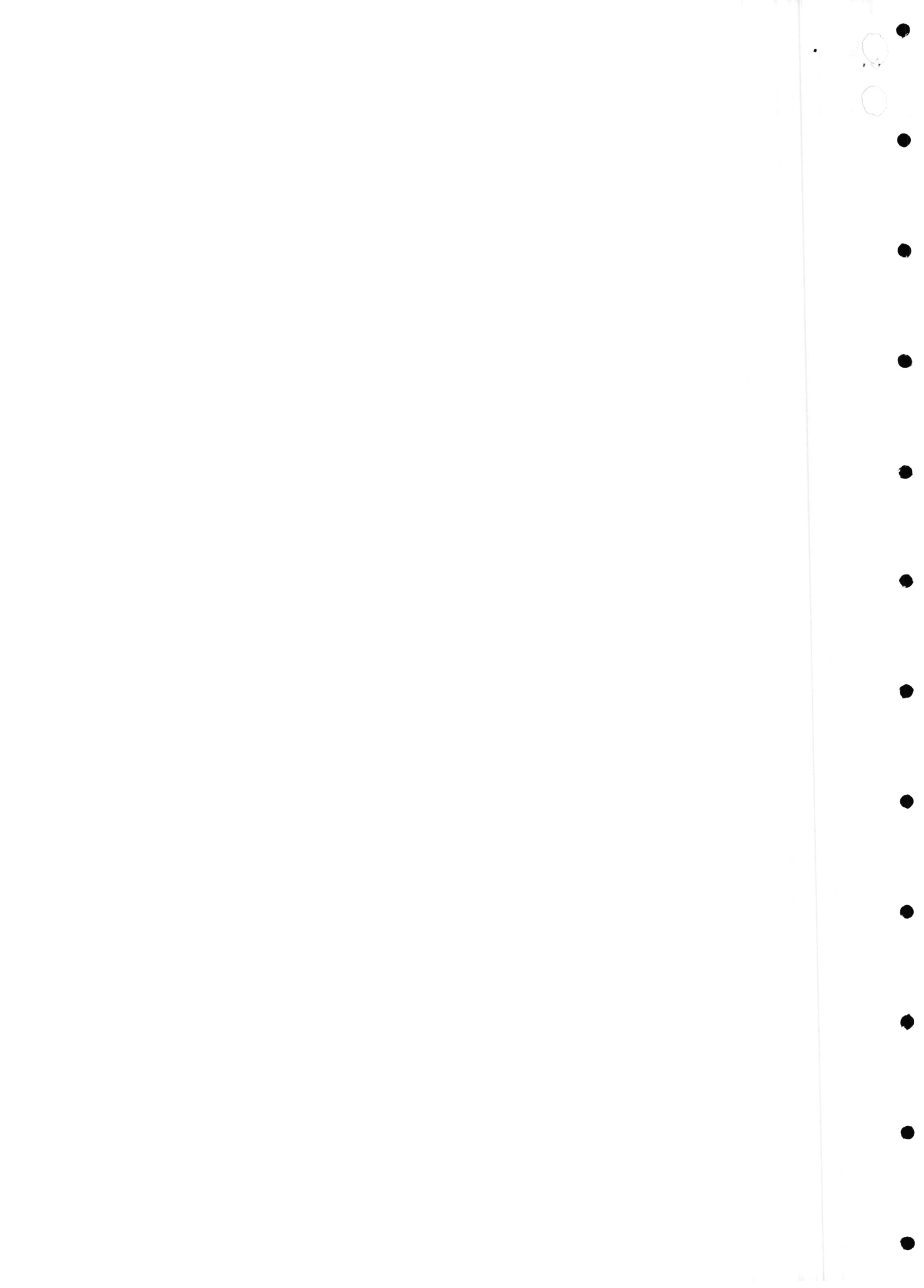
The revaluation surplus represents the net cumulative surplus arising from revaluation of property, plant and equipment net of depreciation and deferred taxation. The revaluation surplus is non-distributable.



NZOIA SUGAR COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 Shs'000	2015 Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	23(a)	737,876	1,037,259
Interest received	5(a)	10,461	21,175
Interest paid		(3,337)	-
Taxation paid	8(c)	-	-
		<hr/>	<hr/>
Net cash generated from operating activities		745,000	1,058,434
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	9	(517,655)	(705,261)
Additions to biological assets	13	(327,458)	(250,894)
		<hr/>	<hr/>
Net cash used in investing activities		(845,113)	(956,155)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received	19(b)	200,000	-
Loans repaid	19(b)	(26,663)	(76,170)
		<hr/>	<hr/>
Net cash generated from/(used in) financing activities		173,337	(76,170)
		<hr/>	<hr/>
INCREASE IN CASH AND CASH EQUIVALENTS		73,224	26,109
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		62,246	36,137
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23(b)	<u>135,470</u>	<u>62,246</u>



NZIOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1 ACCOUNTING POLICIES

Statement of compliance

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

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

Application of new and amended International Financial Reporting Standards (IFRS)

i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2016*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 19
Defined Benefit Plans:
Employee Contributions

The amendments require the Company to account for employee contributions as follows:

- Discretionary employee contributions are accounted for as reduction of the service cost upon payments to the plans.
- Employee contributions specified in the defined benefit plans are accounted for as reduction of the service cost, only if such contributions are linked to services. Specifically, when the amount of such contribution depends on the number of years of service, the reduction to service cost is made by attributing the contributions to periods of service in the same manner as the benefit attribution. On the other hand, when such contributions are determined based on a fixed percentage of salary (i.e. independent of the number of years of service), the reduction in the service cost should be recognised in the period in which the related services are rendered.

As the Company does not require employee contributions to its closed defined benefit scheme, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Company's financial statements.

Annual Improvements to
IFRSs 2010 - 2012 Cycle
and 2011 – 2013 Cycle

One of the annual improvements requires entities to disclose judgements made by management in applying the aggregation criteria set out in paragraph 12 of IFRS 8 Operating Segments.

The application of this and other amendments has had no impact on the disclosures or amounts recognised in the Company's financial statements.

ii) *Impact of relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016*

New standards and Amendments to standards

Effective for annual periods beginning on or after

IFRS 9 Financial Instruments

1 January 2018

IFRS 15 Revenue from contracts with customers

1 January 2018

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

1 January 2016

Amendments to IAS 1: Disclosure Initiative

1 January 2016

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

1 January 2016

Annual Improvements to 2012-2014

1 January 2016



NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES

Application of new and amended International Financial Reporting Standards (IFRSs) (Continued)

ii) *Impact of relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (Continued)*

IFRS 9 Financial Instruments

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 requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement 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. 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) 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 the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk 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 recognised.
- 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.

The directors of the Company are assessing the impact of the application of IFRS 9 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which 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)

1 ACCOUNTING POLICIES

Application of new and amended International Financial Reporting Standards (IFRSs) (Continued)

ii) *Impact of relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (Continued)*

IFRS 15 Revenue from Contracts with Customers (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. The directors of the Company are assessing the impact of the application of IFRS 9 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently, the Company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively. The application of the amendments to the standard has had no significant impact on the Company's financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- a) clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- b) clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements;
- c) clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
- d) additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The directors of the Company believe that the application of the amendments to the standard has had no significant impact on the Company's financial statements.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and amended International Financial Reporting Standards (IFRSs) (Continued)

iii) Impact of relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016 (Continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. In terms of the amendments, bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted. As a transitional provision, entities need not disclose the quantitative information required by paragraph 28(f) of IAS 8 for the current period. However, quantitative information for each prior period presented is still required.

Also, on the initial application of the amendments, entities are permitted to use the fair value of items of bearer plant as their deemed cost as at the beginning of the earliest period presented. Any difference between the previous carrying amount and fair value should be recognised in opening retained earnings at the beginning of the earliest period presented.

The directors of the Company anticipate that the application of these amendments will have a significant impact on amounts reported in the Company's financial statements. However it is not possible to assess the impact until a detailed review is done.

Annual Improvements to 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Company's financial statements.

iv) Early adoption of standards

The company did not early-adopt any new or amended standards in 2016.



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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, Sugar Development Levy, 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.
- Sugar Development Levy does not apply to export sugar and molasses sales. Value Added Tax does not apply to export sugar sales as well as sales to exempted entities.

(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.

Foreign currencies

In preparing the financial statements, transactions in currencies other than the entity's 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 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.

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.



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

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.

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.



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Biological assets (Continued)

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.

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 recognised 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 recognised 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 financials assets at initial recognition.

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.



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 recognised 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 amortised 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 recognised in other comprehensive income and accumulated in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised 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.

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.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities (Continued)

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 recognised for the asset in prior years. A reversal of an impairment loss is recognised 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.

Dividends

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

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.

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 recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Actuarial valuations are carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plans.

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. The company's contributions are charged through profit or loss in the year to which they relate.

Provision 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.

Comparatives

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

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 judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The judgements, 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.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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 judgements in applying the company's accounting policies

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:

- 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.

(ii) Key sources of estimation and uncertainty

Biological assets

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.



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(ii) Key sources of estimation and uncertainty (Continued)

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.

3 GOING CONCERN

At 30 June 2016, the company had a shareholders' deficit of Shs 31,755,577,000 (2015: Shs 28,527,442,000) and current liabilities exceeded current assets by Shs 40,946,862,000 (2015: Shs 38,038,736,000). The Company has also defaulted on repayment of both principal and interest on borrowings due to the National Treasury and the Agriculture and Food Authority totalling Shs 38,062 million (2015: Shs 36,955 million). 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 and Agriculture and Food Authority will not demand for the settlement of the outstanding loan amounts. Should the Government of Kenya and the Agriculture and Food 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 privatise 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 the going concern basis.

4 REVENUE ANALYSIS

	2016 Shs'000	2015 Shs'000
Gross sales	5,102,210	6,495,718
Less: Sugar Development Levy	(166,005)	(210,381)
Less: Value Added Tax	(703,721)	(895,961)
	<hr/>	<hr/>
Net sales	4,232,484	5,389,376
	<hr/> <hr/>	<hr/> <hr/>
Net sales analysed as follows:		
Sugar sales	4,151,073	5,259,536
Molasses sales	81,411	129,840
	<hr/>	<hr/>
	4,232,484	5,389,376
	<hr/> <hr/>	<hr/> <hr/>

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2016 Shs'000	2015 Shs'000
5 (a) FINANCE INCOME		
Interest income:		
On farmers balances	9,165	19,153
On deposits with financial institutions	1,114	2,022
On staff car loans	182	-
	<u>10,461</u>	<u>21,175</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.

	2016 Shs'000	2015 Shs'000
(b) FINANCE COSTS		
Interest expense	<u>884,081</u>	<u>1,197,665</u>

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after:

Charging:

Staff costs (note 7)	1,030,939	885,458
Depreciation of property, plant and equipment (note 9)	737,372	508,779
Amortisation of intangible assets (note 10)	574	820
Directors' emoluments - fees	-	-
- other	6,677	5,994
Directors' expenses	38,971	14,879
Auditors' remuneration	6,296	5,858
Bad and doubtful debts	14,722	1,325
Loss on disposal of assets	-	1,064
Loss on revaluation of property	-	10,354
	<u>1,030,939</u>	<u>885,458</u>

7 STAFF COSTS

Salaries and allowances	768,267	677,088
Bonus	8,977	-
Pension - defined contribution scheme	53,016	48,058
Provident fund	25,572	15,060
Staff overtime	66,668	57,838
Staff training	24,222	11,344
Casual labour	56,588	70,495
Other staff costs	22,111	6,960
Pension - statutory defined contribution scheme	5,334	5,339
Defined benefit scheme credit (note 18(b))	184	(6,724)
	<u>1,030,939</u>	<u>885,458</u>

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2016 Shs'000	2015 Shs'000
8 TAXATION		
(a) Taxation charge		
Current taxation based on the adjusted profit for the year at 30% - current year	750	-
Deferred taxation charge (note 17)	312,979	-
	<u>313,729</u>	<u>-</u>
(b) Reconciliation of expected tax based on loss before taxation charge		
Loss before taxation	(2,390,726)	(2,008,299)
Tax at the applicable rate of 30%	(867,218)	(602,490)
Tax effect of non-deductible expenses	313,729	1,748
Tax effect of non-taxable income	-	(1,748)
Deferred tax not recognised	867,218	602,490
	<u>313,729</u>	<u>-</u>
(c) Taxation recoverable		
At beginning of the year	(822)	(822)
Paid in the year	-	-
Charge for the year	750	-
At end of year	<u>(72)</u>	<u>(822)</u>

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land Shs '000	Factory building Shs '000	Residential & school buildings Shs '000	Plant & machinery Shs '000	Tractors, trailers & heavy vehicles Shs '000	Cars & motor cycles Shs '000	Furniture, fittings & equipment Shs '000	Computer system Shs '000	Factory tools & implements Shs '000	Water & electricity installation Shs '000	Capital WIP Shs '000	Total Shs '000
COST OR VALUATION												
At 1 July 2014	2,350,300	534,932	173,052	5,976,174	475,069	84,233	83,270	10,190	63,496	98,942	598,692	10,448,350
Additions	5,339	-	-	200,804	-	-	-	2,469	551	-	496,098	705,261
Revaluation	3,444,700	90,510	(72,281)	(12,886)	(292,559)	(959)	(55,827)	(3,684)	(59,592)	18,662	-	3,056,084
Transfers	-	-	-	7,198	-	-	-	-	-	-	(7,198)	-
Disposals	-	-	-	-	-	(3,364)	-	-	-	-	-	(3,364)
As previously reported	5,800,339	625,442	100,771	6,171,290	182,510	79,910	27,443	8,975	4,455	117,604	1,087,952	14,206,331
Prior year adjustment	-	-	-	(1,191,483)	94,940	(9,010)	700	29,300	-	-	(225,273)	(1,300,826)
At 30 June 2015- restated	5,800,339	625,442	100,771	4,979,807	277,450	70,900	28,143	38,275	4,455	117,604	862,319	12,905,505
At 1 July 2015												
As previously stated	5,800,339	625,442	100,771	6,171,290	182,510	79,910	27,443	8,975	4,455	117,604	1,087,592	14,206,331
Prior year adjustment	-	-	-	(1,191,483)	94,940	(9,010)	700	29,300	-	-	(225,273)	(1,300,826)
As restated	5,800,339	625,442	100,771	4,979,807	277,450	70,900	28,143	38,275	4,455	117,604	862,319	12,905,505
Additions	-	-	-	1,263	86,572	24,537	2,650	10,005	2,236	1,600	388,792	517,655
Transfers	-	30,329	-	47,351	-	-	-	-	-	-	(77,680)	-
At 30 June 2016	5,800,339	655,771	100,771	5,028,421	364,022	95,437	30,793	48,280	6,691	119,204	1,173,431	13,423,160
COMPRISING												
Cost	5,339	369,182	51,236	2,351,400	166,478	95,437	4,151	18,980	6,691	27,695	1,173,431	4,270,020
Valuation - 2009	2,350,300	196,079	49,535	2,677,021	102,604	-	25,942	-	-	72,846	-	5,474,327
Valuation - 2015	3,444,700	90,510	-	-	94,940	-	700	29,300	-	18,663	-	3,678,813
	5,800,339	655,771	100,771	5,028,421	364,022	95,437	30,793	48,280	6,691	119,204	1,173,431	13,423,160



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land Shs '000	Factory building Shs '000	Residential & school building Shs '000	Plant & machinery Shs '000	Tractors, trailers & heavy vehicles Shs '000	Cars & motor cycles Shs '000	Furniture, fittings & equipment Shs '000	Computer system Shs '000	Factory tools & implements Shs '000	Water & electricity installation Shs '000	Capital WIP Shs '000	Total Shs '000
DEPRECIATION												
At 1 July 2014	282,036	192,520	39,148	1,924,435	333,032	57,051	34,418	5,989	32,083	52,540	-	2,953,252
Charge for the period	47,006	34,241	6,695	350,765	43,459	6,529	7,328	1,001	4,795	6,960	-	508,779
Disposals	-	-	-	-	-	(2,300)	-	-	-	-	-	(2,300)
Eliminated on revaluation	(329,042)	(226,761)	(45,843)	(2,275,200)	(376,491)	(61,280)	(41,746)	(6,990)	(36,878)	(59,500)	-	(3,459,731)
As at 30 June 2015	-	-	-	-	-	-	-	-	-	-	-	-
At 1 July 2015	-	-	-	-	-	-	-	-	-	-	-	-
Charge for the year	-	53,299	11,178	502,842	115,448	23,859	4,619	7,242	1,004	17,881	-	737,372
At 30 June 2016	-	53,299	11,178	502,842	115,448	23,859	4,619	7,242	1,004	17,881	-	737,372
NET BOOK VALUE (Valuation)												
As at 30 June 2016	<u>5,800,339</u>	<u>602,472</u>	<u>89,593</u>	<u>4,525,579</u>	<u>248,574</u>	<u>71,578</u>	<u>26,174</u>	<u>41,038</u>	<u>5,687</u>	<u>101,323</u>	<u>1,173,431</u>	<u>12,685,788</u>
At 30 June 2015	<u>5,800,339</u>	<u>625,442</u>	<u>100,771</u>	<u>4,979,807</u>	<u>277,450</u>	<u>70,900</u>	<u>28,143</u>	<u>38,275</u>	<u>4,455</u>	<u>117,604</u>	<u>862,319</u>	<u>12,905,505</u>
NET BOOK VALUE (Cost)												
At 30 June 2016	<u>5,339</u>	<u>221,769</u>	<u>72,836</u>	<u>2,050,224</u>	<u>68,595</u>	<u>19,196</u>	<u>12,153</u>	<u>10,973</u>	<u>8,930</u>	<u>1,406</u>	<u>1,173,431</u>	<u>3,644,851</u>
At 30 June 2015	<u>5,339</u>	<u>216,081</u>	<u>76,669</u>	<u>2,764,834</u>	<u>18,959</u>	<u>1,057</u>	<u>11,648</u>	<u>5,670</u>	<u>8,270</u>	<u>54</u>	<u>862,319</u>	<u>3,970,900</u>



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 PROPERTY, PLANT AND EQUIPMENT (Continued)

Property, plant and equipment were last revalued on 30 June 2015 by Real Appraisal Limited, registered valuers. 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 Sangalo/1904, East Bukusu/East Sangalo/1444 and Ndivisi/Khalumuli/1459 and a 50 year land grant for land reference 4857/64/Kileleshwa with effect from April 2002 from the Government of Kenya. In 2015, the leasehold land was valued at Shs 6,028,600,000.

10 INTANGIBLE ASSETS

	2016 Shs'000	2015 Shs'000
COST		
At 1 July and 30 June	32,544	32,544
AMORTISATION		
At 1 July	30,630	29,810
Charge for the year	574	820
At 30 June	31,204	30,630
NET BOOK VALUE	<u>1,340</u>	<u>1,914</u>

Intangible assets represent computer software costs.

11 DUE FROM OUTGROWERS

Due from outgrowers	383,188	428,750
Less: provision for doubtful debts	(363,808)	(349,085)
	<u>19,380</u>	<u>79,665</u>
Due within 1 year	12,920	53,110
After 1 year	6,460	26,555
	<u>19,380</u>	<u>79,665</u>

The movement in the provision for doubtful debts is as follows:

At 1 July	349,085	347,760
Charge for the year	14,723	1,325
At 30 June	<u>363,808</u>	<u>349,085</u>

Due from out growers 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 2 years to harvest, all unrecovered debt after two years is therefore provided for as doubtful.



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2016 Shs'000	2015 Shs'000
12 INVENTORIES		
Sugar and molasses	90,076	282,468
Sugar in process	21,315	12,834
Raw materials	900	450
Consumables	424,695	539,579
	<u>536,986</u>	<u>835,331</u>

The cost of inventories recognised as an expense during the year was Shs 1,146 million (2015: Shs 2,789 million).

	2016 Shs'000	2015 Shs'000
13 BIOLOGICAL ASSETS		
At 1 July	520,893	535,054
Additions at cost	327,458	250,894
Decrease due to harvest	(513,686)	(259,227)
	<u>334,665</u>	<u>526,721</u>
Gain/(loss) arising from changes in fair value attributable to physical changes	135,542	(148,434)
Gain arising from changes in fair value attributable to price changes	-	142,606
Fair value gain/(loss) during the year	<u>135,542</u>	<u>(5,828)</u>
At 30 June	<u>470,207</u>	<u>520,893</u>
Maturing within 12 months	142,748	269,998
Maturing after 12 months	327,459	250,895
	<u>470,207</u>	<u>520,893</u>

Significant assumptions made in determining the fair values of biological assets and agricultural produce are:

- The valuation is based on a market price of Shs 3,000 per tonne of sugar cane (2015 – Shs 3,000).
- Carrying value of cane at the age of nine months and below is stated at cost. Mature cane has been stated at fair value less point of sale costs.
- The estimated sucrose content per tonne of mature cane (pol value) at various stages of growth will remain constant at between 12.5% and 13.5% depending on the age of the cane across the sugar belt.
- The valuation is based on a yield of 59.20 tonnes per hectare on completion of 18 months.

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.

The Company is exposed to financial risks arising from changes in cane prices. The Company does not anticipate that cane prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in cane prices. The Company reviews its outlook for cane prices regularly in considering the need for active financial risk management.

NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2016 Shs'000	2015 Shs'000
14	TRADE AND OTHER RECEIVABLES	
	58,676	44,288
	(25,171)	(25,171)
	33,505	19,117
	53,527	16,079
	(5,857)	68,733
	61,958	15,227
	<u>143,133</u>	<u>119,156</u>
15	SHORT TERM DEPOSITS	
	19,045	45,049
	186	183
	<u>19,231</u>	<u>45,232</u>
	The effective interest rates was as follows:	
	2016 %	2015 %
	11	11
	9	9
	<u>11</u>	<u>9</u>
16	SHARE CAPITAL	
	2016 Shs'000	2015 Shs'000
	Authorised:	
	30,000,000 ordinary shares of Shs 20 each	600,000
	600,000	600,000
	Issued and fully paid:	
	27,150,000 ordinary shares of Shs 20 each	543,000
	543,000	543,000
17	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%.	
	2016 Shs'000	2015 (restated) Shs'000
	The net deferred taxation liability is attributable to the following items:	
	Deferred taxation liabilities:	
	750,165	648,936
	141,062	156,268
	2,712,281	2,468,563
	<u>3,603,508</u>	<u>3,273,767</u>
	Total liabilities	



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 DEFERRED INCOME TAXATION LIABILITY (Continued)

	2016	2015
	Shs'000	(restated) Shs'000
Deferred taxation assets:		
Provision for service gratuity	(97,069)	(109,594)
Provision for staff leave pay	(27,484)	(18,824)
Unrealised exchange losses	(6,908)	(2,382)
General doubtful debts provision	(9,869)	(5,559)
Provision for obsolete stock	(74,457)	(62,666)
Tax losses available for offset against future profits	(7,695,121)	(6,827,903)
Deferred tax assets not recognised	7,695,121	6,827,903
	<hr/>	<hr/>
Total assets	(215,787)	(199,025)
	<hr/>	<hr/>
Total	3,387,721	3,074,742
	<u>=====</u>	<u>=====</u>
The movement on the deferred taxation account during the year was as follows:		
At 1 July as previously stated	3,464,990	1,507,139
Prior year adjustment (note 28)	(390,248)	-
	<hr/>	<hr/>
As restated	3,074,742	1,507,139
Charged to other comprehensive income	-	1,567,603
Profit or loss charge (note 8(a))	312,979	-
	<hr/>	<hr/>
At 30 June	3,387,721	3,074,742
	<u>=====</u>	<u>=====</u>

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

18 RETIREMENT BENEFITS OBLIGATIONS

	2016	2015
	Shs'000	Shs'000
(a) AMOUNTS DUE TO STAFF PROVIDENT FUND		
Balance at the beginning of the year	365,312	502,325
Interest charge	25,572	35,163
Paid during the year	(67,321)	(172,176)
	<hr/>	<hr/>
Balance at the end of the year	323,563	365,312
	<u>=====</u>	<u>=====</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 2013. Accrued member benefits as at this date were transferred to the provident fund. From 1 July 2013, 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.



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 RETIREMENT BENEFITS OBLIGATIONS (Continued)

(b) DEFINED BENEFITS SCHEME ASSET

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 2016 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		
Rate of revaluation of deferred benefits (per annum)		
Rate of pension increases per annum		
Retirement age (years)		
	2016	2015
	Shs'000	Shs'000

The credit recognised in profit or loss in respect of the scheme is as follows:

Current service cost	4,287	3,931
Net interest on the net defined benefit asset	(4,103)	(10,655)
	<u>184</u>	<u>(6,724)</u>

The credit recognised in other comprehensive income in respect of the scheme is as follows:

Actuarial gains	(3,484)	(1,931)
Return on plan assets	55,415	26,357
Change in effect of asset ceiling	(28,251)	33,111
	<u>23,680</u>	<u>57,537</u>

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

	2016	2015
	Sh'000	Sh'000
Value of accrued liabilities	(371,054)	(381,181)
Value placed on scheme assets	389,548	447,403
Change in effect of asset ceiling	(9,247)	(33,111)
	<u>9,247</u>	<u>33,111</u>



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2016 Shs'000	2015 Shs'000
19	BORROWINGS	
	a) Loans	
	National Treasury	35,712,257
	Agriculture and Food Authority	2,349,758
	<u>38,062,015</u>	<u>34,840,447</u>
	<u>2,114,943</u>	<u>36,955,390</u>

The borrowings are repayable as follows:

On demand or within 1 year	37,619,974	36,356,557
After 1 year	442,041	598,833

Total borrowings	<u>38,062,015</u>	<u>36,955,390</u>
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The company has defaulted on loan repayments and the entire loan amount is due for settlement on demand.

	2016 Sh'000	2015 Sh'000
b) Movement in loans		
At beginning of year	36,955,390	35,606,152
Accrued interest	880,745	1,197,665
Foreign exchange difference	52,543	227,743
Loans received	200,000	-
Loans repaid	(26,663)	(76,170)
	<u>38,062,015</u>	<u>36,955,390</u>
At end of year	<u>38,062,015</u>	<u>36,955,390</u>
This is made up of:		
Principal	10,534,257	10,360,920
Accrued interest	27,527,758	26,594,470
	<u>38,062,015</u>	<u>36,955,390</u>

c) Interest rates	2016 %	2015 %
--------------------------	-----------	-----------

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

The National Treasury	5.3	5.3
Agriculture and Food Authority	<u>10.9</u>	<u>10.9</u>



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 BORROWINGS (Continued)

d) Details of securities for borrowings

The loans from The National Treasury and the Agriculture and Food Authority are unsecured.

These loans were advanced in tranches on diverse dates in the 1980's and have been long outstanding. The company has defaulted on repayment of both principal and interest in the past.

	2016 Shs'000	2015 Shs'000
20 TRADE AND OTHER PAYABLES		
Trade payables	456,068	450,483
Due to out growers	331,885	201,406
Tax penalties	1,398,466	811,115
Sugar Development Levy	820,216	658,662
Accruals	451,726	273,286
Other payables	433,928	232,943
	<hr/>	<hr/>
	3,892,289	2,627,895
	<hr/> <hr/>	<hr/> <hr/>

21 PROVISION FOR STAFF LEAVE PAY

At the beginning of the year	62,746	64,861
Provision for the year	42,434	(2,115)
Paid in the year	(13,568)	-
	<hr/>	<hr/>
At the end of the year	91,612	62,746
	<hr/> <hr/>	<hr/> <hr/>

22 CAPITAL COMMITMENTS

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

Authorised and contracted for	149,812	-
Authorised but not contracted for	780,392	1,148,607
	<hr/>	<hr/>
	930,204	1,148,607
	<hr/> <hr/>	<hr/> <hr/>

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



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2016 Shs'000	2015 Shs'000
23	NOTES TO THE STATEMENT OF CASH FLOWS	
(a)	Reconciliation of loss before taxation to cash generated from operations	
	Loss before taxation	(2,890,726) (2,008,299)
	<i>Adjustments:</i>	
	Finance income (note 5(a))	(10,461) (21,175)
	Finance costs (note 5(b))	884,081 1,197,665
	Property revaluation loss	- 10,354
	Depreciation (note 9)	737,372 508,779
	Amortisation (note 10)	574 820
	Loss on disposal of property, plant and equipment	- 1,064
	Foreign exchange difference on borrowings	52,543 227,743
	Fair value (gain)/loss on biological assets (note 13)	(135,542) 5,828
	Biological assets harvested (note 13)	513,686 259,227
	Cash (used in)/generated from operations before working capital changes	(848,473) 182,006
	<i>Movements in:</i>	
	Out growers balances	60,285 141,642
	Inventories	298,345 248,778
	Trade and other receivables	(23,977) 85,564
	Staff provident fund	(41,749) (137,013)
	Defined benefit obligation (note 23(c))	184 (6,724)
	Trade and other payables	1,264,394 525,121
	Provision for staff leave pay	28,867 (2,115)
	Cash generated from operations	737,876 1,037,259
(b)	Analysis of the balances of cash and cash equivalents:	
	Cash and bank balances	116,239 17,014
	Short term deposits (note 15)	19,231 45,232
		135,470 62,246
(c)	Analysis of non- cash transactions:	
	Change in defined benefit obligation	(23,864) (50,813)
	Credit in other comprehensive income	23,680 57,537
	Amount included in the statement of cash flows (note 23(a))	(184) 6,724
24	CONTINGENT LIABILITIES	
	Pending claims	81,800 1,000
	Letters of credit	19,045 45,049



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2016 Shs'000	2015 Shs'000
25	RELATED PARTY BALANCES AND TRANSACTIONS	
	a) Key management compensation	
	The remuneration for key management during the year was as follows:	
	Salaries and other benefits	50,747
		33,875
		<u> </u>
	b) Directors' remuneration	
	Other emoluments	6,677
	Directors' expenses	5,994
		14,879
		<u> </u>

26 **RISK MANAGEMENT POLICIES**

Overview

The Company's activities expose it to a variety of financial risks, including credit risk, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. 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. Management identify, evaluate and hedge financial risks as appropriate. The Board guidance on the overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments and investing excess liquidity.

The Company has exposure to the following risks due to its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

The company does not enter into or trade in financial instruments, including derivative financial instruments, for either hedging or speculative purposes.

Credit risk management

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.

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.



26 RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

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 counterpart 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:

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.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

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 Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
30 June 2016				
Trade receivables	25,895	7,610	25,171	58,676
Due from outgrowers	-	19,380	363,808	383,188
Short term deposits	19,231	-	-	19,231
Bank balances	116,239	-	-	116,239
	<u>161,365</u>	<u>26,990</u>	<u>388,979</u>	<u>577,334</u>
30 June 2015				
Trade receivables	13,567	5,550	25,171	44,288
Due from outgrowers	-	79,665	349,085	428,750
Short term deposits	45,232	-	-	45,232
Bank balances	17,014	-	-	17,014
	<u>75,813</u>	<u>85,215</u>	<u>374,256</u>	<u>535,284</u>

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.

At 30 June 2016, an increase/decrease of 3 percentage points on interest rates would have resulted in a decrease/increase in pre-tax profit of Shs 26,522,000 (2015 – Shs 35,930,000).

(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.

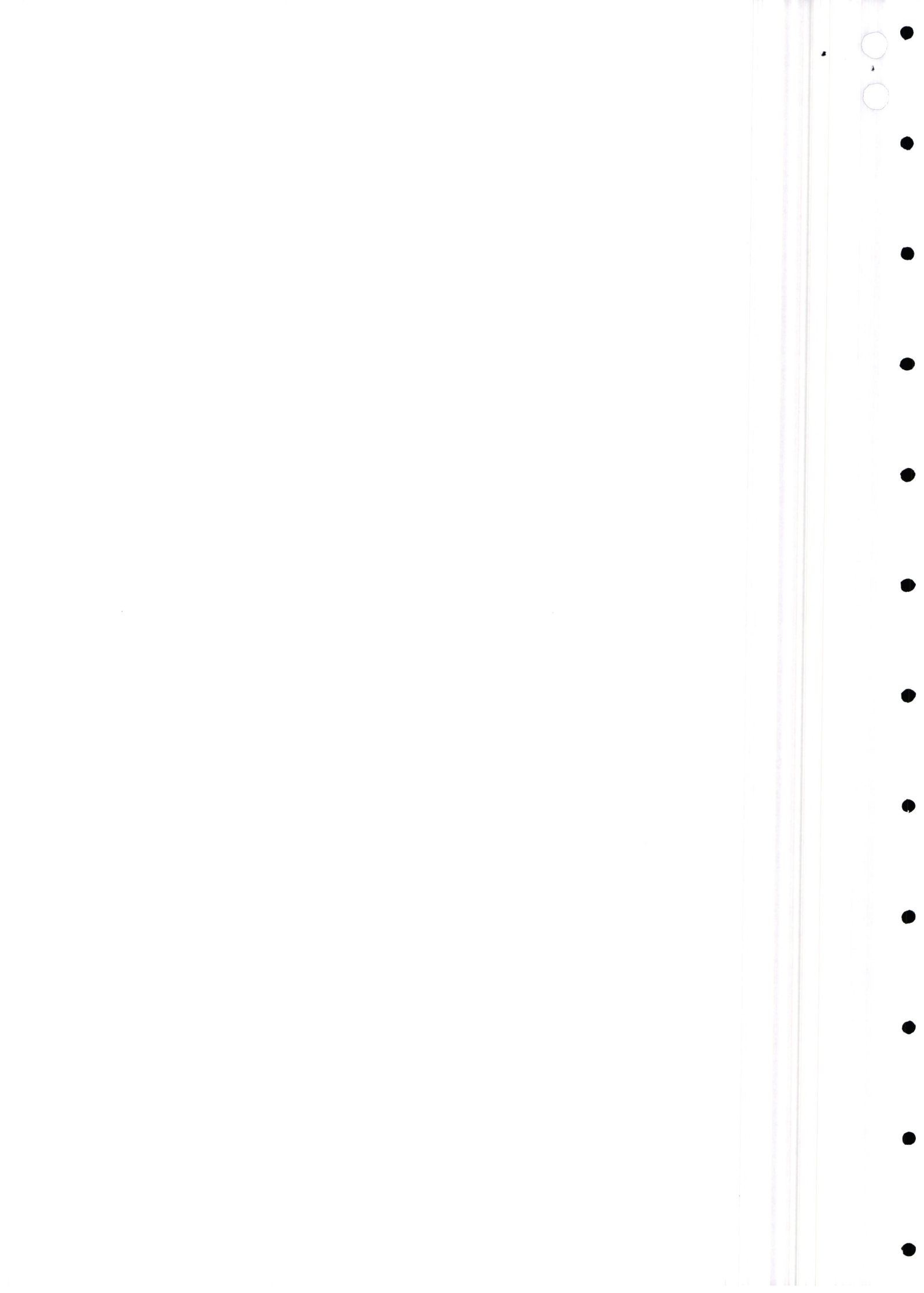
	1 - 6 months Shs'000	6 - 12 Months Shs'000	Above 1 year Shs'000	Total Shs'000
At 30 June 2016				
Borrowings	-	37,619,974	442,041	38,062,015
Trade payables	456,068	-	-	456,068
Payables to outgrowers	381,885	-	-	381,885
	<u>837,953</u>	<u>37,619,974</u>	<u>442,041</u>	<u>38,899,968</u>
At 30 June 2015				
Borrowings	-	36,356,557	598,833	36,955,390
Trade payables	315,338	135,145	-	450,483
Payables to outgrowers	201,406	-	-	201,406
	<u>516,744</u>	<u>36,491,702</u>	<u>598,833</u>	<u>37,607,279</u>

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).



26 RISK MANAGEMENT POLICIES (Continued)

Liquidity risk management (Continued)

Fair value of financial assets and liabilities (Continued)

b) Financial instruments measured at fair value (Continued)

- 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
At 30 June 2016				
Non- financial assets				
Property, plant and equipment	-	12,685,788	-	12,685,788
Biological assets	-	470,207	-	470,207
	=====	=====	=====	=====
At 30 June 2015				
Non- financial assets				
Property, plant and equipment	-	12,905,505	-	12,905,505
Biological assets	-	520,893	-	520,893
	=====	=====	=====	=====

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

c) Financial instruments not measured at fair value

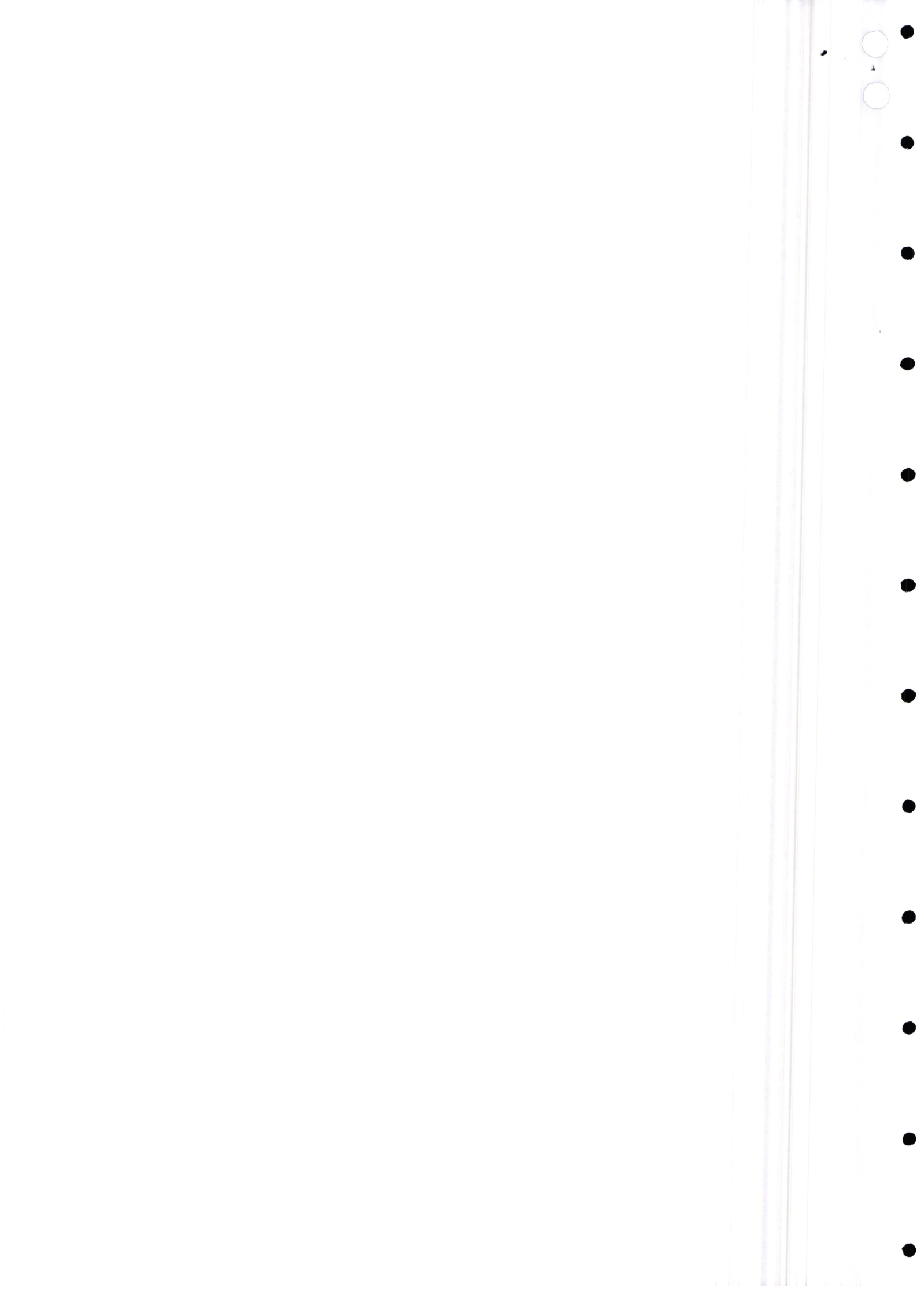
Disclosures of fair values of financial instruments not measured at fair value have not been made because the financial carrying amounts are a reasonable approximation of their fair values.

27 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.



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 CAPITAL MANAGEMENT (Continued)

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

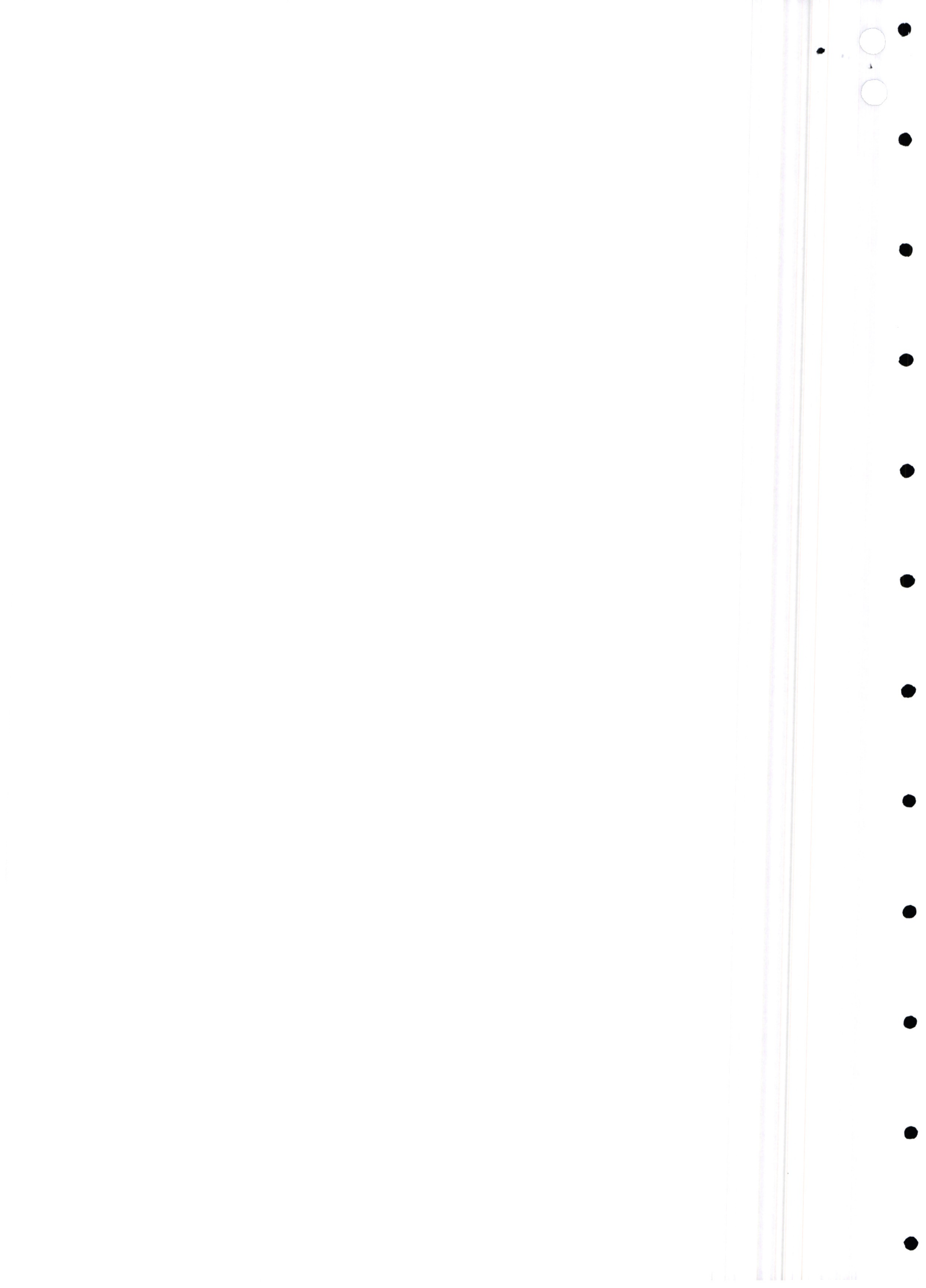
	2016 Shs '000	2015 (restated) Shs '000
The gearing ratio at the year end was as follows:		
Shareholders' deficit	(31,755,577)	(28,527,442)
Borrowings (note 19)	38,062,015	36,955,390
Short term deposits (note 15)	(19,231)	(45,232)
Cash and bank balances	(116,239)	(17,014)
Net debt	37,926,544	36,893,144
Gearing ratio	Over 100%	Over 100%

28 PRIOR YEAR ADJUSTMENTS

Property, plant and equipment were revalued on 30 June 2015 by Real Appraisal Limited. However, the valuation report was reissued by Real Appraisal Limited after a reassessment of asset values based on further evaluation performed on the Company's assets. As a result, in compiling the financial information included herein, the following adjustments were made to the financial statements for the year ended 30 June 2015:

a) Restatement of audited statement of profit or loss and other comprehensive income

	As previously reported Shs'000	Prior year adjustment Shs'000	Restated Shs'000
For the year ended 30 June 2015			
Revaluation surplus (1)	6,526,169	(1,300,826)	5,225,343
Deferred tax on revaluation surplus (2)	(1,957,851)	390,248	(1,567,603)
		(910,578)	
Effect on revaluation surplus (1)	7,571,515	(910,578)	6,660,937



NZOIA SUGAR COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 PRIOR YEAR ADJUSTMENTS (Continued)

b) Restatement of audited statement of financial position

As at 30 June 2015	As previously reported Shs'000	Prior year adjustment Shs'000	Restated Shs'000
Assets			
Property, plant and equipment (3)	14,206,331	(1,300,826)	12,905,505
Liabilities			
Deferred tax (2)	(3,464,990)	390,248	(3,074,742)
Effect on revaluation surplus (1)		<u>(910,578)</u>	

- (1) Relates to the effect on revaluation surplus on the recognition of the adjusted revalued amounts in the statement of profit or loss and other comprehensive income
- (2) Relates to the effect on deferred tax on revaluation surplus on the recognition of the adjusted revalued amounts in the statement of profit or loss and other comprehensive income and the statement of financial position (note 17)
- (3) Relates to the effect on property, plant and equipment on the recognition of the adjusted revalued amounts in the statement of financial position (note 9)

29 INCORPORATION

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

30 CURRENCY

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



APPENDIX I

NZOIA SUGAR COMPANY LIMITED

DETAILED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 Shs'000	2015 Shs'000
Revenue	4,232,484	5,389,376
Fair value gain/(loss) on biological assets	135,542	(5,828)
	<hr/>	<hr/>
Operating income	4,368,026	5,383,548
Cost of sales	(3,908,834)	(4,223,688)
	<hr/>	<hr/>
Gross profit	459,192	1,159,860
Other operating income	55,669	105,374
Marketing and distribution costs	(25,203)	(17,447)
Administrative expenses	(2,506,764)	(2,079,596)
Finance income	10,461	21,175
Finance costs	(884,081)	(1,197,665)
	<hr/>	<hr/>
Loss before taxation	(2,890,726)	(2,008,299)
Taxation charge	(313,729)	-
	<hr/>	<hr/>
Loss for the year	(3,204,455)	(2,008,299)
	<hr/>	<hr/>

Appendix II



APPENDIX II

NZOIA SUGAR COMPANY LIMITED

DETAILED STATEMENT OF PROFIT OR LOSS (CONTINUED)

	2016 Shs'000	2015 Shs'000
ADMINISTRATIVE EXPENSES		
Staff costs	1,030,939	885,458
Other costs	88,286	47,017
Performance bonus	8,977	-
Legal and professional fees	57,892	29,690
Corporate social responsibility	7,694	5,442
Depreciation	47,901	24,048
Medical services	53,731	50,395
Travelling	62,815	35,424
Security	3,980	3,757
Publications and listing	1,027	289
Directors' emoluments	6,677	5,994
Amortisation of intangible assets	574	820
Repairs and maintenance	17,052	16,684
Rent and rates	17,776	17,959
Insurance	82,887	71,511
Cane safety expense	11,847	5,661
Bank charges	4,332	6,501
Contracted services	44,416	47,346
Telephones and communications	2,958	998
Audit fees	6,296	5,858
Stationery	12,544	12,246
Bad and doubtful debts	14,723	1,325
Inventory obsolescence provision	126,420	87,118
Donations	833	315
Fuel and lubricants	65,628	85,879
Motor vehicle running	77,666	55,412
Loss on disposal of fixed assets	-	1,064
Foreign exchange differences	52,543	227,743
Tax penalties	598,349	346,643
	<u>2,506,764</u>	<u>2,079,596</u>

