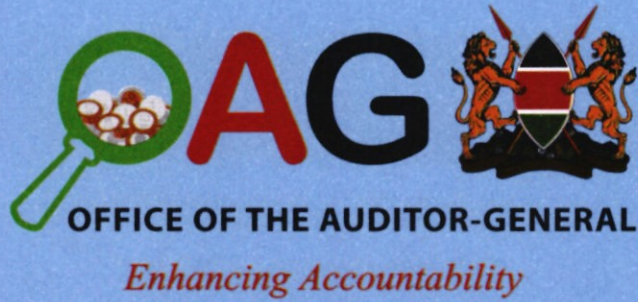


REPUBLIC OF KENYA



**REPORT**

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**OF**

**THE AUDITOR-GENERAL**

**ON**

**SOUTH NYANZA SUGAR  
COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2023**

MSDS 9-14-00



**SONYSUGAR**  
Simply The Sweetest

**SOUTH NYANZA SUGAR COMPANY LIMITED**

**ANNUAL REPORT AND  
FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2023**

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

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## CORPORATE INFORMATION

### Background information

South Nyanza Sugar Company Limited, also known as SonySugar was established by the Act of Parliament under Companies Act (Cap. 486) on 5 July 1976 as a public limited liability Company. The Company grows sugar cane, manufactures and sell sugar. At cabinet level, the entity is represented by the Cabinet Secretary for Agriculture and Livestock Development who is responsible for the general policy and strategic direction of the entity. The entity is domiciled in Kenya.

**Our Vision:** To be the leading manufacturer of sugar and associated products in Africa.

**Our Mission Statement:** To manufacture high quality sugar and associated products.

**Our values:** The mission and vision of the Company shall be accomplished and realized by embracing the following core values: Customer focus, Intrapreneurship, Teamwork, Timeliness, Integrity and Professionalism, Social Responsibility and safety.

### BOARD OF DIRECTORS

The Directors who held office during the year and to the date of this report were:

Hon. Jared O. K'Opiyo	Chairman-(Appointed 14.04.2023).
Mr. Stephen Ligawa	Managing Director (Ag)
Mr. Tobias Osano	Alternate – Principal Secretary, Ministry of Agriculture and Livestock Development (Appointed 14.04.2023).
Ms. Peninah Mukami Njunge	Alternate – Cabinet Secretary, the National Treasury (Appointed 14.04.2023)
Mr. Erick Osenya	Director - (Appointed 14.04.2023).
Ms. Mary Akoth Were	Director - (Appointed 14.04.2023).
Ms. Laura Abishag Matiko	Director - (Appointed 14.04.2023).
Mr. Kipkoech Kirui	Director - (Appointed 14.04.2023).
Mr. John Billy Momanyi	Director - (Appointed 14.04.2023).
Mr. Douglas Kailanya	Director - (Appointed 14.04.2023).

The Directors and alternates continue in office in accordance with the provisions of the articles of association of the Company.

### KEY MANAGEMENT TEAM

Stephen Ligawa	Managing Director (Ag)
Samson Mbayi	Head of Finance (Ag)
Maurice Omondi	Company Secretary-(Ag) ICPSK Reg. No. 1386
Patrick Mugenya	Head of Manufacturing (Ag)
Ken Nyangwara	Head of Marketing & Business Development (Ag)
Zakayo Gombe Oindo	Head of Agriculture (Ag)
Dan Oyamo	Head of Human Resources (Ag)
James Oluoch	Head of ICT
Caroline Ochele	Head of Procurement (Ag)
Kennedy O. Onyango	Audit Manager

## **CORPORATE INFORMATION (CONTINUED)**

### **CORPORATE HEADQUARTERS**

#### **South Nyanza Sugar Company Ltd**

PO Box 107 - 40405  
Sare-Awendo, Migori County,  
KENYA

### **CORPORATE CONTACTS**

Tel: +254-20 8029201-3  
+254 722 205 345/6/7  
+254 733 333 348/9

Email: [administration@sonysugar.co.ke](mailto:administration@sonysugar.co.ke)

Website: [www.sonysugar.co.ke](http://www.sonysugar.co.ke)

### **CORPORATE BANKERS**

Co-operative Bank  
P.O. Box 20818 - 00100  
NAIROBI

Kenya Commercial Bank Ltd  
P. O. Box 54 - 40400  
SUNA

National Bank of Kenya Ltd  
P. O. Box 41862 - 00200  
NAIROBI

ABSA Bank of Kenya  
P. O. Box 99 - 40200  
KISII

### **INDEPENDENT AUDITOR**

Office of the Auditor General  
Anniversary Towers  
P.O. Box 30084 – 00100  
NAIROBI.

### **COMPANY LAWYERS**

1. Okongo, Wandago & Co Advocates  
SUNA MIGORI

2. Otieno Yogo & Co Advocates  
P. O. Box 2453-40100  
KISUMU

3. Otieno Ragot & Co Advocates  
P. O. Box 1003-40100 KISUMU

4. Moronge & Co Advocates  
Electricity House 9th Floor  
P. O. Box 44289-00100  
NAIROBI

5. TRIPLEOKLAW  
P.O. Box 43170-  
00100 NAIROBI

**BOARD OF DIRECTORS**



*Hon Jared O. K'opiyo  
Board chairman*



*Mr. Douglas Kailanya  
Director*



*Mr. Stephen Ligawa  
Managing Director (Ag.)*



*Mr. John Billy Momanyi  
Director*



*Mr. Kipkoech Kirui  
Director*



*Ms. Mary Atieno Were  
Director*



*Mr. Erick Osenya  
Director*



*Ms. Laura Abishag Matiko  
Director*



*Ms. Theodora Gichana  
Rep. I.G State Corporations*



*Ms. Peninnah Mukami  
Rep. C.S. National Treasury*

**BOARD OF DIRECTORS (CONTINUED)**



**Mr. Tobias Okongo Osano**  
*Rep. PS MoA,L.F&I*

**Directors' qualifications and experience**

SN	DIRECTOR	DATE OF APPOINTMENT	COUNTY OF ORIGIN	HIGHEST LEVEL OF EDUCATION
1	HON. JARED O. K'OPIYO D.O.B: 01-01-1973	14.04.2023 (BOARD CHAIRMAN)	MIGORI	BACHELOR OF EDUCATION (ARTS)
2	MS. PENINAH MUKAMI NJUNG'E D.O.B: 30-06-1981	30.09.19 (ALTERNATE TO CS, NATIONAL TREASURY)	KIAMBU	MASTERS OF ARTS IN ECONOMICS
3	MR. TOBIAS OSANO D.O.B: 1974	14.04.2023 (ALTERNATE TO PS, PARENT MINISTRY)	HOMABAY	MA (INTERNATIONAL STUDIES –DEV. & COOPERATION) BA (ECONOMICS), CPA (K)
4	MR. ERICK OSENYA D.O.B: 16-07-1963	14.04.2023 (INDEPENDENT DIRECTOR)	KISUMU	PHD INDUSTRIAL PLANNING, MSC INDUSTRIAL PLANNING,DEGREE IN MGT SCIENCE
5	MS. MARY AKOTH WERE D.O.B: 19-11-1977	14.04.2023 (INDEPENDENT DIRECTOR)	SIAYA	MA (PROJECT PLANNING & MANAGEMENT), BSC AGRIBUSINES, CPA II
6	MS. LAURA ABISHAG MATIKO D.O.B: 06-03-1998	14.04.2023 (INDEPENDENT DIRECTOR)	MIGORI	BSC (PROJECT PLANNING & MANAGEMENT)
7	MR. KIPKOECH KIRUI D.O.B: 02-05-1985	14.04.2023 (INDEPENDENT DIRECTOR)	UASIN GISHU	DIP HUMAN RESOURCE MANAGEMENT, CPA
8	MR. JOHN BILLY MOMANYI D.O.B:	14.04.2023 (INDEPENDENT DIRECTOR)	KISII	MBA –STRATEGIC MANAGEMENT, BCOM (FINANCE)
9	MR. DOUGLAS KAILANYA D.O.B: 28-11-1965	14.04.2023 (INDEPENDENT DIRECTOR)	MERU	MBA (ADMINISTRATION), BCOM ACCTS, CPAK

**KEY MANAGEMENT TEAM**



**Stephen Ligawa**  
Managing Director (Ag)  
Msc. Chemistry  
Bsc. Chemistry



**Samson Mbayi**  
Head of Finance (Ag.)  
MA (PPM)  
Bcom Finance - CPA



**Patrick Mugenya**  
Head of Manufacturing(Ag)  
Bsc Mech. Eng.



**Zakayo Gombe**  
Head of Agriculture(Ag)  
Msc. Hort. Eng.  
Bsc. Agric. Eng.



**Dan Oyamo**  
Head of Human Resources (Ag.)  
BA  
HND Hum. Res. Mgt.



**James Oluoch**  
MBA Strat Management  
BBA Mgt Info. Sys



**Mourice Omondi**  
Company Secretary (Ag)  
LLB Honors  
Dip. in Law



**Kennedy Onyango**  
Audit Manager  
MBM Finance  
Bsc Accounting  
CPA-K, ACCA



**Caroline A. Ochelle**  
Head of Procurement(Ag)  
MA Proc & Logistics  
Bsc Suppliers & Chain Mgt.



**Ken Nyangwara**  
Head of Marketing (Ag.)  
MBA Strat. Mgt.  
BBA (Marketing)

## **CHAIRMAN'S STATEMENT**

The Board of Directors of South Nyanza Sugar Company Limited is pleased to announce its financial results for the year ended 30th June 2023.

We have delivered these results in a period deeply impacted by unfair competition characterized by cane poaching by our competitors leading to acute shortage of raw material, adverse weather conditions that affected the region and high cost of inflation that greatly affected importation of critical spares. Despite the continued headwinds, we managed to record a remarkable growth compared to the previous year.

While we acknowledge a more challenging operating environment, our underlying business is resilient as indicators still points to a better future following the strategies put in place to revive the company. We strongly believe that we will navigate the shifting economic landscape within the sugar industry and emerge strong in the financial year ending June 2024.

### **Implementation of the big 4 agenda**

The Government's Bottom-Up Economic Transformation Agenda (BETA), that supports the "Big Four agenda" of the Vision 2030 of manufacturing, food security and health, still remains our core agenda as per the current strategic plan. The plan emphasizes on optimization and effectiveness aimed at achieving high productivity. Factory rehabilitation remains a major activity towards achieving our plan. Other activities include improved health care for staff and medical camps to the general public, improved housing facilities to the staff, increasing area under cane through turnaround strategy of increasing sugar production through enhanced efficiency and effective Management Process.

### **Macroeconomic Environment**

According to Kenya Bureau of statistics and the economic survey 2023, the overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 7.9 per cent, in June 2023. The inflation was largely due to increase in prices of commodities under Food and Non-alcoholic Beverages (10.3%); and Housing, Water, Electricity, Gas and other fuels (9.4%); and Transport (9.4%) between June 2022 and June 2023.

Kenya's annual economic growth picked up to 5.3% in the first quarter of 2023, compared with downwardly revised growth of 3.7% in the prior three-month period. It was the strongest growth rate in a year, amid a sharp rebound in the dominant agricultural sector. GDP is projected to grow by 6.0% in 2024, driven by services and household consumption. Inflation is projected to rise to 5.9% in 2024, driven by food and energy inflation. Monetary policy is expected to remain tight. The fiscal deficit is expected to narrow to 5.4% in 2024, in line with the fiscal consolidation path. Global inflation is forecast to rise to 4.1% by 2024.

Sugar sub-sector will continue to play a big role in economic development as most sectors in the economy depend on sugar as input in production chain.

### **Strategic focus**

Despite the operating environment headwinds, the Board of Directors of South Nyanza Sugar Company Limited affirms its confidence in our strategy and our commitment to delivering sustainable growth. We will continue to deliver on our strategy with focus on improving performance and manage cost and investments effectively. We remain deeply committed to environmental stewardship, social responsibility, and governance practices that align with our values and guarantee long-term sustainability in line with Bottom up Economic Transformation Agenda.

## **CHAIRMAN'S STATEMENT (Continued)**

### **Results, Business & Operating Environment**

During the year under review, our business has navigated an increasingly complex operating landscape characterised by a host of macro-economic headwinds. Specifically, acute shortage of raw material-cane affecting the industry and inflationary pressure that impacted on cost of inputs resulting to increased cost of doing business. Further, currency deterioration, higher taxes and rising interest rates particularly in Kenya further impacted our business performance.

### **Business Review**

Despite the above challenges, total gross revenue grew by 22% from Kshs 4.2 Billion to 5.1 Billion while average recovery ratio improved to 8.84% following a comprehensive factory maintenance carried out in the Months of November /December 2022. The Company has achieved a ratio of 10% with continuous production. This is the industry standard anywhere in the world and as Company we must be proud of our achievement.

During the year, we invested a total of Kshs 451 Million to carry out a comprehensive factory maintenance in the months of November/December 2022 enabling us to achieve a recovery ratio of 10% on a continuous run.

On the business front, and with the fact that Kenyan economy being market-based with a liberalized external trade system, the Company was badly affected by unfair business practices as a result of raw material price wars and cane poaching. Nevertheless we remain positive and we will continue to implementation our wide-ranging corporate strategy in line with Government agenda.

### **The Sugar Industry**

The year ended 30.06.2023 was a difficult year for the industry. The status and importance of sugar as a source of livelihood and viable economic concern is under threat from various challenges and factors in the sugar industry and the country as a whole. Major threats include acute shortage of raw material (cane) due to cane poaching and high inflation that increased the cost of doing business. This in turn led to low productivity and low income to farmers.

Through new legislations, we envisage fair competition and growth in the coming year 2023/2024.

### **Corporate Governance**

After operating without a Board pursuant to dissolution of the Board on 3<sup>rd</sup> August 2020, the Government did via gazette notice dated 14<sup>th</sup> April 2023, reconstitute the Board through appointment of the Board Chairman and six non-executive independent Board members. Alternate Directors from the parent ministry and National Treasury seats in the Board.

The Board has displayed great commitment, diligence and effectiveness in carrying out its responsibilities and providing wise guidance to management, ensuring we continue to deliver value to our stakeholders at all times.

As a Board, strengthening decision making processes throughout the organization remains our key priority. We will continue to support management in its strategy of transforming the organization in line with Government regulations.

Directors are satisfied that the Company has to the best of their knowledge, complied with all applicable laws and conducted its business affairs in accordance with the law. I wish to sincerely thank all the Board members for their contributions during the year.

**CHAIRMAN'S STATEMENT (Continued)**

**Conclusion**

I would like to acknowledge the contribution of the Managing Director and all our employees for the responsive and skilled execution of our strategic goals – efforts that enabled us to deliver the current result during a difficult year characterized by intense competition.



29<sup>th</sup> November, 2023.

-----  
**Hon Jared O. K'Opiyo**  
**Chairman, Board of Directors**

## **REPORT OF THE MANAGING DIRECTOR**

I am pleased to present to you performance of Nyanza Sugar Company Limited (Sonsugar) for the year ended 30 June 2023, delivered as the economy is recovering from the reeling effects of high inflation and shortage of raw material. The Sonsugar stepped into the year with renewed optimism to do better after the challenging years of underperformance.

During the year the Company experienced unfair price wars due to raw material shortage brought about by private millers and jageries and unfair competition occasioned by increased presence of counterfeit products in the market. Despite these challenges, we remain focused on our strategic initiative to deliver on our mandate. With an accelerated improvement on efficiency, we are committed to ensuring steady and reliable performance as we focus on cane development.

### **Operating Volumes**

The year ended 30.06.2023 has been a year of recovery and strategic progress. Despite the shortage of raw material in the sector that has affected target deliveries, the Company milled 457,616 tons of cane in the period under review against a budget of 650,000 tons. This performance was 70.4% achievement on budget. In the same period last year, the Company milled 497,552 tons of cane.

The conversion ratio (rendement %) during the period under review was 8.84% against a budget of 10%. This was 1.16 units below the budget. Rendement of 8.55% was realized in the same period last year.

Sugar produced in the period was 40,580 tons against a budget of 65,000 tons. This was 62.43% achievement on budget, and is 1,525 tons below the 42,105 tons produced in the same period last year. This decrease was due to cane shortage that has hit the sugar sub-sector.

### **Revenue**

The average per ton prices that ruled in the year were higher than the budgeted prices. The average gross price per ton of Kshs. 119,592 was 23% above the budgeted gross price of Kshs. 97,341. Total net revenue realized in the period was Kshs. 4,423 million.

### **Production Costs**

The cost of production per ton of sugar in the period averaged Kshs. 114,148 (845 USD), with a positive contribution margin of Kshs. 17,198 per ton. This significant increase in cost per unit is attributable to high inflation rate, lower fixed costs occasioned by low capacity utilization as a result of plant down time and low sugar recovery ratio. In the same period last year, the cost of production per ton of sugar averaged Kshs. 96,096 (711 USD), with a positive contribution margin of Kshs. 29,997.

### **Farmers Payments**

During the year, the Company paid Kshs. 1,998.1 million to cane farmers and other related service providers including land development contractors, weeders, cane cutters and transporters.

### **Cane Area**

Measures have been put in place to secure raw materials from farmers through weekly field demonstration meetings so as to enhance planting and sourcing for mature non-contracted cane. The team leaders for this exercise are area managers in their respective areas. Management has also appointed cane scouting team who have been tasked to source for mature cane independent of the areas covered in the field demos.

## **Managing Director's report (continued)**

### **Business Environment**

The current acute cane shortage in the nation will impact negatively to overall production of sugar in the local market. As a result the sugar stocks are projected to be low as compared to projected demand, meaning the sugar prices in the local market are anticipated to be stable in the year 2023-2024 if the current level of duty free sugar imports is controlled.

Additionally inflation rate is also projected to be high in the next year as annual inflation rate in June 2023 eased marginally to 7.9% as reported by Trading Economics Global Macro Models and Kenya National Bureau of Statistics July 2023. Prices of Fast Moving Consumer Goods (FMCG) are also expected to be high due to the increase of VAT on fuel to 16%. Cross boarder trade and incidences of counterfeits are anticipated to continue. Branded sugar prices is projected to be stable and Management will endeavour to maximize the production and sales of branded sugar with a view of maximizing revenue growth.

### **Human Capital**

We recognise the importance of harmonious industrial relations in achieving the current growth. There was constructive engagement between the union and the management that ensured employee participation leading to uninterrupted company operations. Despite financial constraint, The Company attaches great importance to the welfare and health of its workers. This is through professionally managed medical centre and provision of comprehensive medical insurance cover in addition to basic needs.

Save for the drop in manning levels occasioned by natural attrition and Government directive that froze staff replacement, resilience demonstrated by this team in achieving the current result is beyond measure.

### **Litigation, Legal Exposure & Compliance with Laws**

Even though the cases against the company went down significantly due to measures put in place by the management, it still remains a challenge to the company due to several undecided cases. These are cases filed against the Company for breach of cane growing contracts stretching back over 10 years. Management continues to reach out to several complainants, who having lodged claims against the Company, have upon discussions, agreed to withdraw such cases filed against the Company. These measures are expected to reduce the numbers to the limits that are manageable and bringing into control litigation against the company.

### **Strategic Focus**

We remain confident that our corporate strategy and strategic priorities will continue to counter the current challenges of high inflation and cane shortage in the industry. Despite limited resources, we have put in place measures aimed at improving efficiency of the factory through Annual Maintenance, raw material sustainability and stakeholders' involvement. Our strategic focus which are in line with the Country's line of sight, Vision 2030 agenda target the following broad areas:

#### **1. Agriculture Operations**

The year under review was characterised by low cane yield because most fields were not adequately fertilised due to shortage of fertilizer and high cost of farm inputs experienced in the country.

The Company is currently working on aggressive cane development targeting over 4,000 Ha progressively over the next year. This is a move aimed at bridging the cane shortage gap created through unfair business practices by our competitors through cane poaching.

To ensure steady supply of cane, we have entered into partnership with the farmers through continuous engagement and training on effective and profitable farming practices.

**Managing Director's report (continued)**

**2. Manufacturing**

Despite the current market forces, The Company expects to maintain a favourable outlook in the next year. We have put in place, measures that will see us remain competitive and guarantee stability. We plan to carry out another factory maintenance in the next financial year aimed at further improving on production.

However, the biting sugarcane shortage will continue to hamper realization of operating potential of the factory post-APM scheduled during the month of April 2024.

A few challenges still persist and these may affect performance in the next Quarter.

These include.

i) Sugar cane handling and feeding units –

The only operational Electric Overhead Train (EOT) crane is now strong, after retrofit of new drives and controls. However, at least two cranes are required to secure operations. Installation and commissioning of the new crane is therefore critical and Management has put in place measures to bring this to reality.

ii) Weak main raw water supply line from the river station, which is prone to failure thus disrupting water supply. Replacement of this line which has been in service for more than 42 years is planned to be carried out in the succeeding year.

iii) Diminishing personnel competencies and skills deficiencies due to sustained natural attrition, and little / no staff training due to cash flow constraints by the Company. Management will partner with Kenya School of Government to carry out in house training so as to better equip staff with the required management and leadership skills.

**3. Information Communication Technology**

We value Information Communication Technology (ICT) as a key in driving the business processes and ensuring data security within the organisation.

We will continue to support investment in ERP systems which we regard as pillars in driving our competitiveness through capacity building. In the next financial year, plans are in place to establish the data centre and improve network infrastructure.

**4. Business Environment**

During the year, the Company operated in an environment that was characterised by continuous changes in sugar cane prices by private millers occasioned by cane shortages in the industry. Unfair business practices as a result of cane poaching greatly eroded our investment in cane development.

**Appreciation**

I sincerely thank the Board of Directors for their wise guidance in the implementation of our strategy soon after the appointment. Their stewardship of the organisation has been invaluable and essential to our success.

My gratitude also goes to the entire South Nyanza Sugar Company Limited family for their resilience and dedication to our corporate theme of being the best in the industry as we continued to deliver on our strategic aspirations. As a team, we shall continue to harness and direct all our efforts in utilization of available opportunities in order to sustain the upward growth in revenue and factory stability.

I also wish to recognise the role played by our esteemed customers and suppliers, who continue to support our various initiatives whenever we call upon them.

**Managing Director's report (continued)**

Once again, I take this opportunity to express my sincere gratitude to our shareholders; The Permanent Secretary, State Department of Crops, Ministry of Agriculture and Livestock for visionary leadership and guidance throughout the year, and the Government of Kenya for their distinguished role in helping us achieve our mandate through both policy and budgetary support while carrying out factory maintenance.

I look forward to your continued support as we move to make Sonysugar an institution of impact in the country.



29<sup>th</sup> November, 2023.

.....  
Stephen Ligawa  
**Managing Director (Ag)**

## STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

During the year under review, the company did not achieve its targets in terms of revenue generation due to unfair completion where other competitors were poaching raw material they did not invest in developing. This resulted to cane shortage subjecting us to low level of activities from input output perspective. Consequently, the Company did not achieve a 15% Return on Capital Employed (ROCE) as per the strategic plan targets/projection.

As the previous year, the Company operated under unfavourable operating environment as explained below;

1. Aggravated cane shortage due to cane theft by our competitors affecting plant capacity utilization, product availability and revenue generation. Apart from intense cane theft, yields were also on a downward trend, largely due to inadequate/erratic supply of fertilizer.
2. Limited cash flow incapable of covering pending bills and general operations effectively.
3. shelved or delayed development plans such as cane development due to cash constraints,

As a result of the above challenges, the company did not achieve the following strategic objectives during the year ended 30<sup>th</sup> June 2023:

1. Increase market share of sugar market from 12% to 15%
2. Developing new products aimed at satisfying existing and emerging consumer needs that would increase the revenue streams.
3. Due to constrained cash flows, operationalisation of efficiency in business processes covering cane production, soil management, propagation of improved cane varieties, improved extension services, reorganization of extension services among others were not properly funded as a result of operational circumstances. These activities are important in enhancing milling and sugar recovery efficiencies
4. Planned diversification investments were never realized due to lack of funding, this denied the business additional revenue streams that would have cushioned it against fluctuation of sugar prices.
5. Sugar production was below the target throughout the period. This adversely impacted sales volumes, revenue generation and profitability, a situation that put the company in an adverse financial position.

Unfavorable operating circumstances occasioned by cane shortage led to the buildup of material arrears including the following:

No.		Description	Kshs "000"
1.	Payroll	Salaries, payroll remittables and statutory payments in arrears	1,194,397
2.	Taxes	Relates to Principal tax and penalties/interest in arrears	3,059,764
3.	Farmers arrears	On account of cane delivered to factory	953,474

Irrespective of the above challenges, the future outlook is good. The revenue for the year improved from Kshs 3,635,273,000 to Kshs 4,422,527,000 due to favourable sugar prices. Further improvement is expected when cane supply improves.

To achieve optimal utilization of human capital, the Company is in the process of implementing appropriate capacity building and up skilling and at the same time focusing on results management. This will help to mitigate the high level of staff turnover.

The company is also addressing the variables that determine the quality of cane such as delay in transportation, overstay in the yard amongst others, efforts are being made to revamp targeted unit processes in the front end of the sugar plant and process area to cover lost grounds in the year ending 30.06.2023.

## STATEMENT ON CORPORATE GOVERNANCE

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

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

### Board of Directors

The roles and functions of the Chairman and the Managing Director are distinct and their respective responsibilities clearly defined. After operating without a Board pursuant to dissolution of the Board on the 3th August 2020, the Government did via gazette notice dated 14th April 2023, reconstitute the Board through the appointment of the Board Chairman and six no-executive independent Board members.

Alternate Directors from the parent ministry and National Treasury also sat in the Board. The Board defines the Company's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues.

In line with the provisions of Mwongozo Code of Conduct, the Board of Directors strive to ensure that the Company complies with the provisions of the constitution and all applicable laws, regulations, codes and applicable standards. The Board had puts in place internal procedures and monitoring systems to promote compliance with strategic objectives of the Company and submits compliance reports on all statutory obligations to the respective Government Departments/Agencies within the specified timelines.

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

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

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

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

Meetings of the Board are held on a regular basis as per approved Board calendar. Special meetings are called when it deems necessary to do so in order to handle an urgent matter that could not otherwise await a normal Board meeting.

### Board Meetings

Pursuant to appointment of the Board on the 14th April 2023, the Board has held the following meetings:-

SN	MEETING	DATE
1	BOARD INDUCTION	05.05.2023
2	MAIN BOARD MEETING	09.06.2023

## **Statement on corporate governance (continued)**

### **Committees of the Board**

As at the end of the financial year, the Board had not set up the relevant Committees. A Committee is intended to facilitate efficient decision making of the Board in the discharge of its mandate and obligations.

Relevant Committees of the Board are discussed below:

### **Board Audit & Risk Committee**

This is one of the mandatory committees mentioned in the Mwongozo Code of Governance for State Corporations. The Committee assists the Board in fulfilling its corporate governance responsibilities and in particular to;

- a) Review effectiveness of the Company's internal control system to ensure adherence to the framework for financial regulations.
- b) Provide comprehensive view of the organization's risk profile to the Board of Directors.
- c) Review compliance with relevant legislations, policies and procedures.
- d) Liaise with the external auditors on Company's Audit matters.
- e) Review the adequacy of accounting, financial and operational controls.
- f) Coordinating decision making to ensure consistency in the risk management process.
- g) Monitor the on-going performance of the Enterprise Risk Management Process.
- h) Review completeness and accuracy of financial statements and disclosures in accordance with financial reporting standards and applicable rules and regulations.
- i) Review whether the Company has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgments.
- j) Clarity and completeness of disclosures in the financial statements and consider whether the disclosures made are set properly in context.
- k) Related information presented with the financial statements, including the business review, and corporate governance statements relating to the audit and to risk management.
- l) Ensure that strategic plan and strategic risks are periodically reviewed.

### **General Purpose Committee**

The Committee reviews all staff related policies and provides recommendations on issues relating to all human resource matters including, career progression, performance management, training needs, job transfers, staff recruitment, staff placements, promotions, demotions, discipline and staff welfare.

### **Board Finance Committee**

The Committee assists the Board in fulfilling its oversight responsibilities relating to the Company's finance, procurement, investment strategies, projects and related activities. The focus of this committee is on the following:-

- a. Review of Financial Management Systems to ensure compliance thereof.
- b. Adoption and review of Accounting policies and practices in line with general Accounting principles.
- c. Advising on Financial Management issues.
- d. Advising on appropriate Capital of the Company.
- e. To Develop Latest Estimates, budgeting and put budgetary controls in place.
- f. Developing and reviewing Performance Contract.
- g. Review of quarterly, half-year and year-end financial statements of the Company focusing particularly on Performance.
- h. Overseeing financial accounting reporting compliance.

#### **Statement on corporate governance (continued)**

- i. To ensure proper Accounting documents are in place.
- j. Oversight responsibility on Management Tender Committee (MTC). MTC to provide quarterly progress reports on procurement to FC.
- k. To review Annual Procurement Plan in relation to budget estimates
- l. To ensure efficient and effective procurement and stores management
- m. Oversight responsibility on ICT issues

#### **Operations Committee**

The Committee assists the Board in fulfilling its oversight responsibilities on operations issues such as agriculture, factory performance, marketing and related issues.

#### **Risk Management and Internal Controls**

The Company has established a Risk Management Policy and Framework which enables Management to consider Risk Implications in all Investments Decisions. This has helped the Company minimize exposure to Risks that may impede efforts to achieve its set Strategic Objectives.

Effective Risk Management Process has been achieved through continuous risk assessment by the respective functional Heads and put in place mitigation strategies on risks facing the Organization.

Internal Audit Department also plays a major role in continuous monitoring as well as identification of emerging risks and provide timely reports to the Board Audit and Risk Committee on the effectiveness of Risk Management Process.

The Company has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for all transactions and for ensuring compliance with the laws and regulations that have significant financial implications. In reviewing the effectiveness of the internal control system, the Board takes into account the results of work carried out to audit and review the activities of the Company.

The Board also considers management accounts for each quarter, reports from each Board Committee, annual budgetary proposals, major and emerging issues and strategic opportunities for the Company.

#### **Creating Shareholders' Value**

In order to assure shareholders on the Company's commitment to activities that create and enhance shareholder value, the Board signs a performance contract with the government and sets corporate performance strategies with Management. The Board also continues to perform an annual evaluation exercise to review and audit its role, success and areas of improvements so as to meet the challenges envisaged at the beginning of each year.

#### **Directors' Emoluments and Loans**

The aggregate amount of emoluments paid to directors during the financial year is disclosed in the notes to the financial statements. There being no Board during the year under review, no payment accrued in respect of the Board activities.

## MANAGEMENT DISCUSSION AND ANALYSIS

The table below analyses the performance of the company during the year ended 30.06.2023

	ACTUAL	BUDGET	ACTUAL	ACTUAL	ACTUAL
OPERATIONS DATA	2022-2023	2022-2023	2021-2022	2020-2021	2019-2020
Tons of Cane Milled	457,616	650,000	497,552	370,301	133,270
Tons of Sugar Bagged	40,580	65,000	42,105	25,753	4,394
Tons of Sugar Sold	40,509	65,000	41,406	25,749	4,540
Tons of Molasses Sold	15,600	19,501	20,061	13,666	6,170
FINANCIAL DATA	ACTUAL	BUDGET	ACTUAL	ACTUAL	ACTUAL
	Ksh'000'	Ksh'000'	Ksh'000'	Ksh'000'	Ksh'000'
Sales Revenue	4,176,335	4,656,263	3,635,273	2,054,057	353,973
Other Revenue	252,260	347,490	2,411	2,942	54,671
<b>Total Revenue</b>	<b>4,428,595</b>	<b>5003,753</b>	<b>3,637,684</b>	<b>1,990,621</b>	<b>401,152</b>
Total Direct Costs	2,191,349	2,248,599	2,251,600	1,584,303	642,191
Total In-Direct Costs	2,325,895	2,647,063	1,782,505	1,513,020	1,259,612
<b>Total Operating Costs</b>	<b>4,517,244</b>	<b>4,895,662</b>	<b>4,034,105</b>	<b>3,097,323</b>	<b>1,901,803</b>
<b>Operating Profit/(Loss)</b>	<b>(88,649)</b>	<b>108,091</b>	<b>(396,421)</b>	<b>(1,106,702)</b>	<b>(1,500,651)</b>
Finance Costs	426,336	68,552	(120,414)	(199,112)	(155,657)
<b>Pre Tax Profit/Loss</b>	<b>(514,985)</b>	<b>39,539</b>	<b>(516,835)</b>	<b>(1,305,814)</b>	<b>(1,656,308)</b>
Corporation Tax	(862)	(11,862)	-	(291)	-
<b>Profit/Loss After Tax</b>	<b>(515,847)</b>	<b>27,677</b>	<b>(516,835)</b>	<b>(1,306,105)</b>	<b>(1,656,308)</b>

**Management discussion and analysis (continued)**

	ACTUAL	BUDGET	VARIANCE	Jun-2022	% CHANGE OVER JUNE-22
<b>PER TONNE (KSHS.)</b>					
Revenue - Gross	11,592	97,341	22,251	99,241	22%
Revenue - Net	103,097	81,766	31,462	85,552	4%
Direct Cost per Ton	85,898	41,379	(44,260)	78,557	0%
<b>Contribution Margin</b>	<b>17,198</b>	<b>40,387</b>	<b>(12,798)</b>	<b>6,996</b>	<b>(19,794)</b>
Indirect Cost Per Tonne	28,250	5,852	(13,258)	17,539	-61%
Total Cost - Before fin. charges	114,148	47,231	(57,518)	96,096	-19%
Finance Charges	10,506	1,235	(9,451)	2,860	-267%
<b>Total Cost - After finance charges</b>	<b>124,654</b>	<b>48,467</b>	<b>(66,970)</b>	<b>98,956</b>	<b>-26%</b>
Direct Cost Per 50Kg Bag	4,295	35,917	(2,213)	3,928	-9.3%
Total Cost per 50Kg Bag	6,233	74%	(3,348)	4,948	-26.0%
Gross Revenue per 50Kg Bag	5,980	2,069	1,825	4,962	-20.5%
Net Revenue per 50Kg Bag	5,155	2,423	1,573	4,278	-20.5%

This report covers the period from 1st July 2022 to 30th June 2023. It sums four quarters of operations since the beginning of 2022/23 fiscal year, therefore 315 days were available for operations against a budget of 330 days.

Total factory stops summed to 1,972 hours against a budget of 675 hours. This was mainly due to, among others, failure of bagasse conveyors earlier in the season, incidences of cane chokes in the Auxiliary Cane Carrier and Cutter chambers, failure of steam header valve, failure of Pan 4 Discharge valve and inadequate cane feeding equipment. Total factory stops due to out of cane summed to 1,680 hours against a budget of 1,224 hours.

**Operating Volumes**

Sugar bagged during the year was 40,580 tons, a shortfall of 24,420 tons against the budget. This was 1,525 tons below performance in similar period of previous year. This decrease was due to cane shortage experienced in quarter 4 due to, as well as breakdowns before Annual Plant Maintenance (APM) and teething problems realized immediately after APM.

The Company milled 457,616 tons of cane in the period under review against a budget of 650,000 tons. This performance was 70.4% achievement on budget. In the same period last year, the Company milled 497,552 tons of cane.

The conversion ratio (rendement %) during the period under review was 8.84 against a budget of 10.00. This was 1.16 units below the budget. Rendement of 8.55 was realized in the same period last year.

## Management discussion and analysis (continued)

### Revenue

The per ton prices that ruled in the period under review were higher than the budgeted prices. The average gross price per ton of Kshs. 119,592 was 22% above the budgeted gross price of Kshs. 97,341. Total revenue realized in the period was Kshs. 4,176 million and Kshs. 252 million from sugar and molasses sales respectively. This falls below the budgeted revenue of Kshs. 4,656 million and Kshs. 348 million for sugar and molasses respectively.

### Production Costs

The cost of production per ton of sugar in the period averaged Kshs. 114,148 (845 USD), with a positive contribution margin of Kshs. 17,198 per ton (*Difference between Net Revenue per ton and the Direct Costs per Ton*) as compared to the budgeted average of Kshs. 47,231 (350 USD) with positive contribution margin of Kshs. 40,387 per ton. This significant increase in cost per unit is attributable to high inflation rate, lower fixed costs occasioned by low capacity utilization as a result of plant down time and below target sugar recovery ratio. In the same period last year, the cost of production per ton of sugar averaged Kshs. 96,096 (298USD), with a positive contribution margin of Kshs. 6,996.

Contribution margin is a measure of production efficiency, and shows what portion of sales revenue is available to finance operations in administrative departments.

### Farmers Payments

In the period under review, the Company paid Kshs. 1,998.1 million to cane farmers and other related service providers including land development contractors, weeders, cane cutters and transporters.

The Government approved bail out of Kshs. 536 million to the Company in the year 2018/2019 which was disbursed directly to farmers accounts as tabulated below leaving an outstanding balance of Kshs. 14.8 million. This balance had not been released to farmers as at 30.06.2023.

S/No	Details	Kshs,
	1 <sup>st</sup> batch paid on March 5, 2019	400,901,091
	2 <sup>nd</sup> batch paid on December 17, 2019	112,330,799
	3 <sup>rd</sup> batch paid on January 27, 2021	6,340,137
	4 <sup>th</sup> batch paid on November 21, 2021	1,501,410
	Outstanding balance yet to be released	14,832,438
	<b>Total</b>	<b>535,905,875</b>

Further, in 2021/2022 fiscal year, the Company submitted a listing of farmers' arrears totalling Kshs. 843,663,210 out of which the Government released Kshs. 138,000,022.10 in two tranches of Kshs. 92,058,411.85 and Kshs. 45,941,610.25 a payment which was disbursed directly to farmers' accounts.

### Cane Milling, Conversion and Sugar Production

The Company milled 457,616 tons of cane in the period under review against a budget of 650,000 tons. This performance was 70.4% achievement on budget. In the same period last year, the Company milled 497,552 tons of cane.

### Management discussion and analysis (continued)

The conversion ratio (rendement %) during the period under review was 8.84 against a budget of 10.00. This was a drop of 1.16 units below the budget. Rendement of 8.55 was realized in the same period last year.

Sugar produced in the period was 40,580 tons against a budget of 65,000 tons. This was 62.43% achievement on budget, and is 1,525 tons below the 42,105 tons produced in the same quarter last year. This decrease was due to cane shortage in the last quarter, as well as breakdowns before APM and teething problems immediately after APM.

During the period, factory performance was adversely affected by:

#### 1.0 Weak cane handling units –

- a. There was only one available Electric Overhead Travelling (EOT) crane, whose availability was compromised by weak drives. However, its availability has significantly improved upon retrofit of the Long Travel and Cross Travel drives.  
However, action on installation and commissioning of new crane has still not been actualised (subject of re-tender).
- b. Weak hydraulic pumps for the Hydro-Unloaders slowing down cane offloading and direct feeding. New pumps have since been acquired.
- c. Frequent breakdowns/unavailability of cane stackers, affecting cane handling and feeding. A new cane stacker has since been procured and two old units have been repaired. This will help in realizing a remarkable improvement in this area.

#### 2.0 Breakdown of conveyors

- d. Breakdowns of mill Inter-Carriers,
- e. Repeated breakdowns of Backfeed Elevator head-shaft and drive gearbox, due to use of reconditioned bearings. New head-shaft bearings have now been acquired.
- f. Derailments/failures of Bagasse Elevator, Main Bagasse Carrier and Backfeed Elevator.

#### 3.0 Boiling House Congestions due to frequent breakdowns of the Sugar Dryer path ring.

- g. New path ring has since been acquired and fitted
- h. Order for a float path ring (a long lead-time item) is in progress.

#### 4. Boiler tube failures (bursts) at the on resumption from APM (leading to loss of over 75hrs).

### Government Support

The Government released to the company through Agriculture Food Authority during the year Kshs. 124 million towards factory maintenance an exercise which was undertaken by the Company in the period of November/December 2022 lasting seven weeks.

**Management discussion and analysis (continued)**

	30-Jun-23 Shs'000	30-Jun-22 Shs'000	30-Jun-21 Shs'000	30-Jun-20 Shs'000	30-Jun-19 Shs'000
<b>Statement of comprehensive income</b>					
Revenue	4,422,526	3,635,273	2,054,068	353,973	2,674,078
Operating loss	(384,800)	(382,130)	(1,162,918)	(1,500,651)	(1,193,799)
Loss before income tax	(514,985)	(516,835)	(1,305,814)	(1,656,308)	(1,345,564)

**Statement of financial position**

Total assets	4,998,066	5,228,067	5,250,733	5,486,103	5,992,808
Total liabilities	9,820,537	9,583,495	9,101,152	7,993,407	6,843,804
Total equity	(4,822,471)	(4,355,428)	(3,850,419)	(2,507,304)	(850,996)
Net working capital	(7,076,880)	(6,691,358)	(6,509,515)	(5,365,488)	(4,473,752)

**Five year operational performance summary**

	<b>30-Jun-23</b>	<b>30-Jun-22</b>	<b>30-Jun-21</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
Milled cane (tons)	457,616	497,552	370,301	133,270	420,486
Sugar sold (tons)	40,509	41,406	25,749	4,540	31,351
Rendement (%)	8.84	8.55	6.96	3.49	7.42

## Environment and Sustainability reporting

The Company undertook a number of Corporate Social Responsibility (CSR) obligations during the financial year. These were initiatives aimed at maintaining the already good relationship with the surrounding community.

The Company maintained the road network with the station, nucleus and outgrower areas. A total of 162 kilometres of roads was maintained, whereby 132 kilometres were graded and 30 kilometres were gravelled.

The Company partnered with Equity Foundation to plant 5,000 tree seedlings within the nucleus estate in June 2023. Additionally, the Company donated 1,000 tree seedlings to the Institute of Certified Public Accountants of Kenya (ICPAK) for planting within the community in the month of June 2023.

SonySugar continues to provide affordable housing to the employees of diverse carders. The Company, in addition, maintained both the internal and external housing environments.

On the healthcare front, the Company ensured Sony Medical Centre operated well and provided the services required by the employees and the local community at subsidized rates. The services include Outpatient, Laboratory, Pharmacy, MCH/FP/Vaccination, X-ray and Scans (Ultrasound), Specialized Clinics, Counseling, Preventive medicine, Gymnasium and Ambulance services. The company's fire engine and ambulance remained on standby and responded to emergencies within the company and the community.

In terms of social welfare, SonySugar supported a vibrant St. John Ambulance team comprising employees, which offers free first aid services both to the employees and the community when the need arises. The Company also continues to maintain the borehole we sunk at our Ndege-Oriedo transloading site in Rongo Sub County, which serves over 600 households with safe clean water for domestic use.

The Company also complied with the government policies aimed at achieving inclusivity and spurring local growth such as availing tender opportunities to the youth, women and persons with disabilities with Access to Government Procurement (AGPO) certification. On cohesion, inclusivity and diversity, the company upheld the Access and Opportunities Act and ensured the workforce consisted of people from all cultures, religions, ethnicities and irrespective of age, gender, marital status, sexual orientation or physical or mental disability.

On talent and career building, the Company offered opportunities to young professionals with various professional backgrounds in the Public Service Commission Internship programme. The Company also offered chances to volunteers as periodic staff to exercise their academic knowledge gained and acquire more practical experience. Furthermore, the Company offered industrial attachment opportunities to over 1,500 students from various institutions within the financial year.

In education, the Company continued to support the SonySugar Nursery and SonySugar Complex schools which offer quality and subsidized education to the children of employees and the local community by maintaining the institution's physical environment, ensuring proper infrastructure, security and meeting the welfare requirements of teachers and all employees of the two schools.

To sustain disaster mitigation, the Company intervened in fires within its nucleus estates, out-grower zones and other areas within Migori County, using its own firefighting engine.

The Company has continued to support farmers by growing sugarcane in out growers and at the same times owns Nucleus Estate for sugarcane production. The Company's main raw material is sugarcane from out growers and nuclearhe farms, process sugar and have byproducts like molasses and bagasse. These activities if left free without controls, would degrade environment and become inhabitable. In order to maintain/sustain the environment, the Company has put in place several measures to eliminate or minimize the exploitation / pollution of the environment.

**Environment and Sustainability report (continued)**

The Company is certified in ISO 9001 (QMS) and 14001 (EMS) and is compliant to EMCA ACT 2015 and OSHA ACT 2007 requirements. In order to comply with the two acts, the company fire engine and ambulance has been on standby and responded to emergencies within the company and the community.

The Company maintains its ground, carryout landscaping, sanitation, and manages its waste (both liquid and solid). The Company has a tree nursery where tree seedlings are developed and nurtured for purposes of afforestation and re afforestation within the Company and its environs.

In short, the Company has different departments that are responsible for quality inspection, control and assurance of systems, processes, products and services. Management systems are in place to ensure all processes are controlled within allowable limits and compliance to regulatory institutions are observed with utmost care.

## DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of South Nyanza Sugar Company Limited (the 'Company') for the year ended 30 June 2023.

## PRINCIPAL ACTIVITIES

The principal activity of the company is to grow sugar cane, manufacture and sell sugar with molasses as a by-product.

## BUSINESS REVIEW

A review of the business of the company is incorporated within the report of the Managing Director on pages xi-xiv.

### Production and sales

The following are the comparative statistics of cane deliveries and sugar production for the year ended 30 June 2023.

	2023	2022
<b>Cane milled (tons)</b>		
Nucleus estate	100,238	64,553
Outgrowers	357,378	432,999
<b>Total</b>	<u>457,616</u>	<u>497,552</u>
<b>Sugar Produced (tons)</b>	<u>40,580</u>	<u>42,105</u>
<b>Rendement</b>	<u>8.84%</u>	<u>8.55%</u>

## DIVIDEND

The net loss for the year of Kshs 467,043,000 (2022: net loss of Kshs 505,009,000) has been added to accumulated losses. The decision on dividend will be made at AGM.

## DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 2 of this report.

## DISCLOSURE OF INFORMATION TO AUDITORS

The management confirm that with respect to each manager at the time of issue of this report:

- a) there was, as far as each manager is aware, no relevant audit information of which the company's auditor is unaware; and
- b) each manager had taken all steps that ought to have been taken as a manager so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

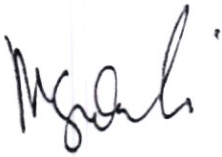
**Directors' report (continued)**

**AUDITORS**

The Auditor General is responsible for the Statutory Audit of South Nyanza Sugar Company Limited in accordance with Article 229 of the constitution of Kenya and section 48 of the Public Audit Act 2018 for the year ended 30 June 2023.

**EMPLOYEES**

We are pleased once again to record their appreciation for the untiring effort of all employees of the company.



29<sup>th</sup> November, 2023

.....  
**Maurice Omondi**  
Company Secretary

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## STATEMENTS OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management (PFM) Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements which give a true and fair view of the state of affairs and the operating results of the entity for that year/period. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs of the entity for financial year ended June 30, 2023. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's 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 (IFRS), and in the manner required by the Companies Act 2015, PFM Act, 2012 and the State Corporations Act section 14. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2023, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Subject to the comments and the conclusions made in Note 2 (a) of these financial statements, the directors believe that the Company will remain a going concern for at least twelve months from the date of this statement.

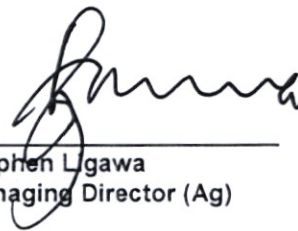
The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

### Approval of the financial statements

The financial statements were approved by the Board on 27<sup>th</sup> September, 2023 and signed on its behalf by:



Hon. Jared O. K'Opiyo  
Chairman, Board of Directors



Stephen Ugawa  
Managing Director (Ag)

# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023**

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### **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of South Nyanza Sugar Company Limited set out on pages 1 to 52, which comprise of the statement of financial position as

at 30 June, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the South Nyanza Sugar Company Limited as at 30 June, 2023, 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 Companies Act, 2015, and the Public Finance Management Act, 2012.

## **Basis for Qualified Opinion**

### **1. Unsupported Receivables from Out-Growers**

The statement of financial position reflects receivables from out-growers balance of Kshs.43,074,000 which, as disclosed in Note 19 to the financial statement, was in respect of billable inputs and services, unbillable services and accrued interest on land development. These relate to the inputs and services rendered to the Company's contracted farmers, and the amount was to be recovered from the proceeds of cane delivered by the farmer. However, the contract agreements between the Company and the individual farmers detailing the amounts owed, when the services were rendered and the type of services rendered were not provided for audit.

In the circumstances, the accuracy and recoverability of the receivables from out-growers balance of Kshs.43,074,000 could not be confirmed.

### **2. Unsupported Tax Balance**

The statement of financial position reflects a current tax balance of Kshs.8,281,000 as disclosed in Note 13 to the financial statements. However, the balance has not been supported by a tax analysis showing all the disallowed expenses added back to the declared loss for the year and all the allowable expenses that have been deducted from the reported loss.

In the circumstances, the accuracy and completeness of the tax payable balance of Kshs.8,281,000 could not be confirmed.

### **3. Unsupported Deferred Income Tax**

The statement of financial position reflects a deferred income tax balance of Kshs.27,666,000 as disclosed in Note 25 to the financial statements. However, no supporting document detailing the timing differences were provided for audit.

In the circumstances, the accuracy and completeness of the differed income tax balance of Kshs.27,666,000 could not be confirmed.

#### **4. Inaccuracies in Property, Plant and Equipment**

The statement of financial position reflects property, plant and equipment balance of Kshs.4,177,614,000 as disclosed in Note 14 of the financial statements. However, the movement schedule shows an unsupported depreciation adjustment of Kshs.33,427,000 and disposals amount of Kshs.33,372,000.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.4,177,614,000 could not be confirmed.

#### **5. Inaccuracies in Grants**

The statement of financial position and as disclosed in Note 24 of the financial statements reflects a grants balance of Kshs.898,581,000 which is net of depreciation charged on the commensurate assets of Kshs.3,869,000. However, the amount has not been reported under other incomes in the financial statements. Further, the grants balance includes an amount of Kshs.328,620,000 in respect of amounts paid to farmers directly by the Government (2023 - Kshs.124,124,000, 2022 - Kshs.195,452,000 and 2021 - Kshs.9,044,000). The amounts do not represent any asset in the statement of financial position and the accounting treatment is not explained.

In the circumstances, the accuracy and completeness of the grants balance of Kshs.898,581,000 could not be confirmed.

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

### **Emphasis of Matter**

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

Note 4 to the financial statements indicates that the Company incurred a net loss after tax amounting to Kshs.467,043,000 (2022 - Kshs.505,009,000) during the year and had accumulated losses of Kshs.8,661,597,000 as at 30 June, 2023 (2022 - Kshs.8,145,750,000). In addition, the Company's current liabilities of Kshs.7,894,537,000 exceeded its current assets of Kshs.817,657,000, resulting in a negative working capital of Kshs.7,076,880,000 (2022 - Kshs.6,691,358,000). These conditions indicate existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern. Management has indicated that the Company's future

depended on the timely and annual factory rehabilitation, and focused and dedicated staff.

## **2. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects total revenue budget and actual on comparable basis amounts of Kshs.3,789,011,000 and Kshs.4,585,439,000, resulting in overfunding of Kshs.796,429,000 (or 21% of the over-budget). Similarly, the Company incurred total expenditure of Kshs.5,101,286,000 (including finance cost and tax) against an approved budget of Kshs.3,761,334,000, resulting in an over-expenditure of Kshs.1,339,952,000 (or 36% of the budget). In the circumstances, the regularity of the over-funding and over-expenditure could not be confirmed.

## **3. Failure to Recover Trade and Other Receivables**

The statement of financial position reflects trade and other receivables balance of Kshs.18,983,000 which, as disclosed in the supporting Note 18 to the financial statements, is the net of gross amount of Kshs.262,056,000 less provision for impairment of Kshs.243,073,000 (or 93% of the gross amount). This high default rate in debt repayments is an indication that Management had not followed proper procedures and due diligence in issuance of credits as outlined in the Credit Policy.

## **4. Long Outstanding Payables**

The statement of financial position reflects trade and other payables balance of Kshs.6,490,930,000 which, as disclosed in Note 26 to the financial statements, includes trade payables balance of Kshs.390,690,000. Review of the aging analysis at Note 26a to the financial statements, revealed that a balance of Kshs.286,390,000 had been outstanding for a period of over 120 days. The balance of Kshs.6,490,930,000 also includes other payables and accrued expenses amount of Kshs.6,003,505,000, most of which had been outstanding for a period of more than one (1) year. Management did not provide evidence of efforts made to recover the long outstanding payables. Failure to settle bills during the year to which they relate distorts financial statement and budget provision for subsequent year.

## **5. Legal Cases**

Review of Court cases against the Company revealed that there were four thousand and eight (4,008) ongoing cases with a possible settlement of Kshs.2,005,455,025. Should the suits succeed, the Company may be unable to settle the awards which may expose its assets to auction.

My opinion is not modified in respect of these matters.

## **Key Audit Matters**

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

## **Other Matter**

### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, as disclosed in progress on follow up of Auditor Recommendations section of the financial statements, Management had not resolved the prior year audit matters.

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Poor Rendement (Yield) Below the Industry Standard**

The statement of profit or loss and other comprehensive income reflects gross sales amount of Kshs.5,130,131,000. However, records provided for audit indicated that the Company milled 457,616 tons of canes during the year under review and produced 40,577 tons of sugar bagged, resulting in a rendement of 8.8% of the produced sugar, which is below the recommended rendement of 10% as per Regulation 21(a) of the Crop Sugar Regulations, 2020 which provides that the miller shall strive to mill sugarcane efficiently to realize maximum returns for both parties by achieving the following standards; in the case of sugar cane, ton cane/ton sugar ratio of 9 or rendement of 10%.

In the circumstances, the efficiency of the factory was still below the standards set by the industry.

#### **2. Employees in Acting Capacity**

Review of the payrolls revealed that acting allowances totalling to Kshs.53,823,266 were paid to three hundred and forty (340) employees who had served in acting capacities for periods exceeding six (6) months. This was contrary to the provisions of Section 34 of the Public Service Act, 2017 and Section 4.6(h) of the South Nyanza Sugar Company Limited of Staff Administrative Code, revised 2007.

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

### **3. Violation of One-Third of Basic Salary Rule**

Analysis of the payroll of permanent staff for the month of June, 2023 revealed that twenty-seven (27) employees received net pays that were below a third of their respective basic salaries. This was contrary to the provisions of Section 19(3) of the Employment Act, 2007, which states that the total amount of all deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages.

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

### **4. Non-Compliance with the Law on Ethnic Composition of Staff**

Review of the staff establishment for the year under review revealed that 86% of the Company's staff were from the dominant ethnic community. This was contrary to the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008, which stipulates that all public establishment shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

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

### **5. Failure to Remit Statutory and Other Deductions**

Review of records revealed that an amount of Kshs.841,581,000 in relation to statutory and other deductions was not remitted to various organizations including the National Social Security Fund, the National Hospital Insurance Fund and Pay as You Earn (PAYE). This was contrary to the provisions of Section 37(1) of the Income Tax Act and Sections 5 and 6 of the Business Laws (Amendment) Act, 2021.

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

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

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

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes

and systems of internal controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, 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 purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

  
FCPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

**Nairobi**

**06 March, 2024**

South Nyanza Sugar Company Limited  
Financial Statements  
At 30 June 2023

Statement of profit or loss and other comprehensive income for the year ended 30 June 2023

	Notes	Year ended 30 June	
		2023	2022
		Shs'000	Shs'000
<b>Gross sales</b>		5,130,131	4,216,916
Indirect taxes:			
- Value Added Tax (VAT)		(707,605)	(581,643)
<b>Revenue</b>	6	4,422,526	3,635,273
Loss/gains arising from changes in fair value less costs to sell of biological assets	16	222	(90)
		<u>4,422,748</u>	<u>3,635,183</u>
Cost of sales	7	(3,493,517)	(3,413,210)
<b>Gross loss/profit</b>		929,231	221,973
Other income	8	6,069	3,038
Distribution costs	9	(15,786)	(13,002)
Administrative expenses	10	(1,304,314)	(594,139)
<b>Operating loss</b>		(384,800)	(382,130)
Finance costs	11	(130,185)	(134,705)
<b>Loss before income tax</b>		(514,985)	(516,835)
Income tax debit	13	(862)	-
<b>Loss for the year</b>		<u>(515,847)</u>	<u>(516,835)</u>
<b>Other comprehensive income</b>			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Remeasurement of post-employment benefits obligation	29	60,317	16,895
Deferred income tax thereon	25	(11,513)	(5,069)
		<u>48,804</u>	<u>11,826</u>
<b>Total comprehensive loss for the year</b>		<u>(467,043)</u>	<u>(505,009)</u>

South Nyanza Sugar Company Limited  
Financial Statements  
At 30 June 2023

Statement of financial position as at 30 June 2023

	Notes	30 June 2023 Shs'000	30 June 2022 Shs'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	4,177,614	4,357,096
Intangible assets	15	2,795	2,920
		<u>4,180,409</u>	<u>4,360,016</u>
<b>Current assets</b>			
Biological assets	16	288,537	281,239
Inventories	17	400,720	392,279
Trade and other receivables	18	18,983	32,648
Receivables from out growers	19	43,074	8,534
Cash and bank balances	20	66,343	153,351
		<u>817,657</u>	<u>868,051</u>
<b>TOTAL ASSETS</b>		<u>4,998,066</u>	<u>5,228,067</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners</b>			
Share capital	21	353,970	353,970
Revaluation reserve	22	3,413,405	3,413,405
Other reserve	23	71,751	22,947
Accumulated losses		<u>(8,661,597)</u>	<u>(8,145,750)</u>
<b>Total equity</b>		<u>(4,822,471)</u>	<u>(4,355,428)</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Grants	24	898,581	778,326
Borrowings	27	668,648	863,266
Deferred income tax	25	27,666	16,153
Retirement benefits obligation	29	331,105	366,341
		<u>1,926,000</u>	<u>2,024,086</u>
<b>Current liabilities</b>			
Trade and other payables	26	6,490,930	6,181,095
Borrowings	27	1,395,326	1,370,895
Current income tax	13	8,281	7,419
		<u>7,894,537</u>	<u>7,559,409</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>4,998,066</u>	<u>5,228,067</u>

The financial statements on pages 1 to 54 were approved for issue by the Board of Directors on 27<sup>th</sup> September 2023 and signed by:



Hon. Jared O. K'Opiyo  
Chairman, Board of Directors



Stephen Ligawa  
Managing Director (Ag)



Samson Mbayi  
Head of Finance (Ag)

South Nyanza Sugar Company Limited  
 Financial Statements  
 For the year ended 30 June 2023

Statement of changes in equity for the year ended 30 June 2023

	Notes	Share capital Shs'000	Revaluation reserves Shs'000	Other reserve Shs'000	Accumulated losses Shs'000	Total equity Shs'000
<b>Year ended 30 June 2022</b>						
At the start of year		353,970	3,413,405	11,121	(7,628,915)	(3,850,419)
Loss for the year		-	-	-	(516,835)	(516,835)
Other comprehensive income		-	-	11,826	-	11,826
Total comprehensive loss		-	-	11,826	(516,835)	(505,009)
At end of year		353,970	3,413,405	22,947	(8,145,750)	(4,355,428)
<b>Year ended 30 June 2023</b>						
At start of year		353,970	3,413,405	22,947	(8,145,750)	(4,355,428)
Loss for the year		-	-	-	(515,847)	(515,847)
Other comprehensive income		-	-	48,804	-	48,804
Total comprehensive gain		-	-	48,804	(515,847)	(467,043)
At end of year		353,970	3,413,405	71,751	(8,661,597)	(4,822,471)

South Nyanza Sugar Company Limited  
 Financial Statements  
 For the year ended 30 June 2023

Statement of cash flows for the year ended 30 June 2023

	Notes	2023 Shs'000	2022 Shs'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	28	79,621	285,736
Interest received	8	2,125	274
Interest paid and other finance charges	11	(130,185)	(134,704)
Net cash generated from/ (used in) operating activities.		(48,438)	151,306
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	14	33,022	71,329
Purchase of intangible assets	15	-	-
Proceeds from sale of fixed assets		-	-
Net cash used in investing activities		33,022	71,329
<b>Cash flows from financing activities</b>			
Grant received		124,124	-
Repayment of borrowings	27	(195,716)	(108,434)
Net cash (used in)/generated from financing activities		(71,592)	(108,434)
<b>Net (decrease)/ increase in cash and cash equivalents</b>		(87,008)	114,201
At start of year		153,351	39,150
<b>At end of year</b>	20	66,343	153,351

South Nyanza Sugar Company Limited  
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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL EXPENDITURE						
	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023
Revenue	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	%
Sales Revenue	4,656,263	-	4,656,263	4,176,335	(479,928)	89.69
Other Revenue	347,491	-	347,491	252,260	(95,230)	72.59
Stock Movement	(1,214,743)	-	(1,214,743)	156,844	1,371,587	
<b>Total Revenue</b>	<b>3,789,011</b>	<b>-</b>	<b>3,789,011</b>	<b>4,585,439</b>	<b>796,429</b>	121.02
<b>DIRECT COSTS</b>					-	
Cost of Cane	1,825,961	-	1,825,961	1,817,005	8,956	99.51
Plant & Fleet Depreciation	146,692	7,527	154,219	154,219	0	100.00
Packaging & Process Chemicals	339,909	-	339,909	94,347	245,562	27.76
Marketing Costs	189,595	-	189,595	15,671	173,925	8.27
Spares & Consumables	144,935	489,241	634,176	634,176	0	100.00
Plant & Machinery Repairs & Maintenance	59,392	-	59,392	19,563	39,829	32.94
<b>Total Direct Costs</b>	<b>2,706,485</b>	<b>496,768</b>	<b>3,203,253</b>	<b>2,734,981</b>	<b>468,272</b>	85.38
<b>IN-DIRECT COSTS</b>					-	
Staff Costs	1,166,754	-	1,166,754	1,098,513	68,240	94.15
Board and Directors Costs	30,000	-	30,000	1,774	28,226	5.91
Staff Acquisition & Development Costs	34,227	-	34,227	5,294	28,933	15.47
Rates, Levies & Insurance	278,730	168,261	446,991	446,991	(0)	100.00

**South Nyanza Sugar Company Limited**  
**Financial Statements**  
**For the year ended 30 June 2023**

Utilities	90,551	-	90,551	57,584	<b>32,968</b>	63.59
Travels & Accomodation	99,099	-	99,099	10,787	<b>88,312</b>	10.88
Audits & Consultancies	65,100	-	65,100	4,080	<b>61,020</b>	6.27
Other Admin Costs net of Recoveries	(790,026)	(725,019)	(1,515,045)	314,084	<b>(1,200,961)</b>	- 17.96
<b>Total In-Direct Costs</b>	<b>974,435</b>	<b>(556,758)</b>	<b>417,677</b>	<b>1,939,107</b>	<b>(1,479,441)</b>	454.21
<b>Total Operating Costs</b>	<b>3,680,920</b>	<b>(59,990)</b>	<b>3,620,930</b>	<b>4,674,088</b>	<b>(1,053,158)</b>	127.93
<b>Operating Profit/(Loss)</b>	<b>108,091</b>	<b>59,990</b>	<b>168,081</b>	<b>(88,649)</b>	<b>1,807,597</b>	- 27.76
Financing Overheads	-	-	-	297,795	<b>297,795</b>	0
Finance Costs	68,552	59,990	128,542	128,541	<b>(0)</b>	100.00
<b>Total Finance Costs</b>	<b>68,552</b>	<b>59,990</b>	<b>128,542</b>	<b>426,336</b>	<b>297,794</b>	331.67
<b>Pre Tax Profit</b>	<b>39,539</b>	-	<b>39,539</b>	<b>(514,985)</b>	<b>(554,524)</b>	- 1,196.26
Corporation Tax Expense	(11,862)	-	(11,862)	(862)	-	-
<b>Profit After Tax</b>	<b>27,678</b>	-	<b>27,678</b>	<b>(515,847)</b>	<b>(554,524)</b>	- 1,708.95

**Explanation of major variances**

- i. Sale of Sugar: The Company realized lower sales volumes due to less stocks occasioned by lower production levels.
- ii. Other revenue: This increased as a result of favorable molasses sales prices realized in the year.
- iii. Staff Costs: A number of staff have retired in the last three years without replacement awaiting lifting of ministerial directive.
- iv. Board and director costs: The Government appointed the Board on 14<sup>th</sup> April 2023. The Company operated without the Board during the year upto the date of this appointment.
- v. Finance Cost: This is due to increased engagements with the banks occasioned by the cash flow constraints experienced in the year under review.

**Notes**

**1 General information**

South Nyanza Sugar Company Limited is incorporated in Kenya under the Companies Act as a public limited liability Company, and is domiciled in Kenya. The address of its registered office is:

PO Box 107 - 40405  
Sare-Awendo

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

**2 Accounting policies**

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

**(a) Statement of compliance**

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings. The financial statements are presented in Kenyan Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

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

**(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2023**

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

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

Notes (continued)

2 Accounting policies (continued)

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

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2023 (Continued)

Annual Improvements: 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 add specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 add additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. It clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the company financial statements.

Amendments to IAS 7 Disclosure Initiative: The amendments to IAS 7 Presentation of Financial Statements address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
  - 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;
  - 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
  - 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 amendments to the standard has had no impact on the financial statements.

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not applied for the year ended 30 June 2023

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2022, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below.

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

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

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

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not applied for the year ended 30 June 2023

IFRS 9 Financial Instruments ("IFRS 9") (Continued)

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Company's financial assets and financial liabilities as at 30 June 2018 on the basis of the facts and circumstances that exist at that date, the Management have performed a preliminary assessment of the impact of IFRS 9 to the Company's financial statements as follows:

*Classification and measurement*

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

*Impairment*

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

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

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

*Hedge accounting*

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

The Management are assessing the potential impact on the financial statements resulting from the application of these changes. The new standard is expected to be applied for the year beginning 1 July 2021.

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not applied for the year ended 30 June 2023 (Continued)

**IFRS 15 Revenue from Contracts with Customers**

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

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

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

The Company recognises revenue mainly from sale of sugar. Based on preliminary assessment, the Management do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance.

**IFRS 16 Leases**

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

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

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not applied for the year ended 30 June 2023(Continued)

**IFRS 16 Leases (Continued)**

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

**IFRS 17 Insurance Contracts**

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

Notes (continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not yet applied for the year ended 30 June 2023 (Continued)

**IFRS 17 Insurance Contracts (Continued)**

The entity:

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

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

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

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

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

The amendments clarify the following:

- (i) In estimating the fair value of a cash settled share based payment, the accounting for the effects of vesting and non vesting conditions should follow the same approach as for equity settled share-based payments.
- (ii) Where tax law or regulation require an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- (iii) A modification of share based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
  - The original liability is derecognised;
  - The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to modification date; and
  - Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

Notes (Continued)

2 Accounting policies (continued)

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

(ii) New and revised IFRSs in issue but not applied for the year ended 30 June 2023 (Continued)

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

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

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

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

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

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

**IFRIC 23 Uncertainty over Income Tax Treatments**

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

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

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

Notes (continued)

2 Accounting policies (continued)

(c) Application of new and revised International Financial Reporting Standards (IFRSs) and IFRICs

(ii) New and revised IFRSs in issue but not applied for the year ended 30 June 2023  
(Continued)

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

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

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

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

(iii) Early adoption of standards)

The Company did not early adopt new or amended standards in the period ended 30 June 2023.

(b) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Kenyan Shillings (Shs)', which is the Company's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other income' or 'other expenses'.

Notes (continued)

2 Accounting policies (continued)

(c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax (VAT, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognized as follows:

Sales of goods are recognized in the period in which the Company has delivered products to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been accepted by the customer.

No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with the market practice. The Company does not operate any loyalty programmes.

Interest income is recognized using the effective interest method.

(d) Property, plant and equipment

Property, plant and equipment are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit and loss) and depreciation based on the asset's original cost is transferred from 'other reserves' to retained earnings.

Depreciation is calculated using the straight-line method to allocate their cost or re-valued amounts to their residual values over their estimated useful lives, as follows:

Buildings	25 - 40 years
Plant and machinery	10 - 60 years
Equipment and motor vehicles	3 - 8 years
Bearer plants	6 years

Notes (continued)

2 Accounting policies (continued)

(d) Property, plant and equipment (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2 (e)). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the income statement. When revalued assets are sold, the amounts included in other reserves relating to that asset are transferred to retained earnings.

(e) Biological assets

Biological assets comprise of agricultural produce on sugar cane.

The roots of the sugar cane are bearer plants and are therefore presented and accounted for as property, plant and equipment, see note 2(d). However, the produce growing on the cane is accounted for as biological assets until the point of harvest. Harvested cane is transferred to inventory at fair value less costs to sell when harvested. The company has applied the amendments made to the accounting standards in relation to the accounting for bearer plants from 1 July 2016, refer to Note 16 for further information.

Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair value less costs to sell are recognised in the statement of comprehensive income in the year in which they arise.

The fair value of the bearer produce is based on the fair value less costs to sale.

Subsequently all costs of upkeep and maintenance of mature biological assets are recognised in the income statement within 'cost of sales' in the period in which they are incurred.

(f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are valued at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct Labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses.

Notes (continued)

2 Accounting policies (continued)

(h) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. As consistently applied, provision is made for receivables in excess of 120 days.

(i) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(j) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(k) Cash and cash equivalents

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(l) Employee benefits

(i) Retirement benefit obligations

The Company operates defined contribution retirement benefit scheme for its non-unionized employees while unionized employees qualify for gratuity upon retirement. The Company and all its employees also contribute to the appropriate National Social Security Fund, which are defined contribution schemes. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. 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.

For defined contribution plans, the Company pays contributions to publicly or privately administered plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense when they are due.

The liability recognized in the statement of financial position in respect of defined benefit gratuity obligation is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Notes (continued)

**2 Accounting policies (Continued)**

**(l) Employee benefits (Continued)**

**(i) Retirement benefit obligations (Continued)**

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in income. The company does not currently have a separate assets to finance the gratuity obligation

**(ii) Other entitlements**

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognized as an expense accrual.

The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders. The Company recognizes a provision where contractually obliged or where there is past practice that has created a constructive obligation.

**(m) Current and deferred income tax**

The tax expense for the period comprises current and deferred income tax. Tax is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity respectively.

Current and deferred income tax for the year ended 30.06.2023 has been calculated at arm's length and incorporated in the financial statements.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, if the deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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**Notes (continued)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**2 Accounting policies (Continued)**

**(n) Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

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

**(o) Provisions**

Provisions are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**(p) Grants**

Grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Where a grant is related to an asset, the grant is presented in the statement of financial position and is credited in the statement of comprehensive income over the periods and in the proportions in which depreciation expense on those assets they are used to finance is recognized.

**(q) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Notes (continued)

**3 Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

**(a) Critical accounting estimates and assumptions**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**(i) 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 15.

**(ii) Recoverability of receivable from Outgrowers**

Outgrower balances relate to the amounts due from farmers that arise from the Company's provision of agricultural inputs and services and the related accrued interest. Significant judgment has been applied by management in estimating the amounts that may not be recoverable based on investment expenditure in inputs and services to Outgrowers over the years taking into account the expected recovery cycle for the amounts.

Provision is determined based on the sugar development recovery cycle such that any balances beyond that cycle are fully provided. Sugar development recovery cycle is approximately 24 months.

The policy of the company is that impairment provision is determined for amounts in excess of the previous 24 months actual spent on sugar development, this has been applied consistently in preparation of the financial statements.

**(iii) Income taxes**

Significant judgment is required in determining the Company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

**(b) Critical judgments in applying the entity's accounting policies**

In the process of applying the Company's accounting policies, management has made judgments in determining:

- The classification of financial assets and leases
- Whether financial and non-financial assets are impaired.

#### 4 Going Concern

The Company made a loss after tax of Shs 467,043,000 (2022: Shs 505,009,000) during the year which was added to accumulated losses totaling Shs 8,661,597,000 (2022: Shs 8,145,750,000). In addition, the Company was in a net current liability position of Shs 7,076,880,000 (2022: Shs 6,691,358,000). The amounts that had become due for repayment on the Commodities fund (SDF) Loan as at year-end were not settled. Management has put in place the following to address the situation:

The major factory rehabilitation carried out between July/ August 2021 and November/December 2022 have placed the recovery ratio to industry standard of 10%. The future of the company depends on the timely and annual factory rehabilitation and in addition to focus and dedicated staff. A comprehensive strategic plan is also in place aimed at achieving targeted goals in the following year.

Based on the above, the management believe that the company will continue in operational existence for at least 12 months from the date of these financial statements. It is therefore appropriate to prepare the Company's financial statements on a going concern basis, which assumes that the Company will continue to meet its obligations as they fall due for the foreseeable future.

#### 5 Financial risk management

The Company's activities expose it to a variety of financial risks, market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors.

Market risk

##### (i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

At 30 June 2023, if the Kenyan Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been Shs 14,400 (2022: Shs 21,402) higher/lower.

##### (ii) Price risk

The Company does not hold any financial instruments subject to price risk.

##### (iii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. To manage interest rate risk the Company ensures that a portion of its borrowings are fixed rate borrowings. The Company regularly monitors financing options available to ensure optimum interest rates are obtained.

At 30 June 2023 and 30 June 2022, the Company did not have any borrowings at variable rates.

Notes (continued)

5 Financial risk management (continued)

(iv) Credit risk

Credit risk is managed on a Company basis. Credit risk arises from deposits with banks and trade and other receivables. Credit risk is the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

Credit risk is managed by the Head of Finance, except for credit risk relating to accounts receivable balances. Sales Committee is responsible for managing and analyzing credit risk for each new client before standard payment and delivery terms are offered. Credit risk arises from cash at bank and short term deposits with banks, as well as trade and other receivables. The Company has no significant concentrations of credit risk.

For banks and financial institutions, only reputable well established financial institutions, are accepted. For trade receivables, the Company's finance department assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on limits set by the Board. The utilization of credit limits is regularly monitored.

The amount that best represents the Company's maximum exposure to credit risk at 30 June 2023 is made up as follows:

	2023 Shs'000	2022 Shs'000
Cash at bank (Note 20)	66,343	153,351
Trade receivables (Note 18)	7,708	1,801
Receivable from out-growers (Note 19)	43,074	8,534
Other receivables	11,275	30,847
	128,400	194,533

No collateral is held in respect of the above assets. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated, and management does not expect any losses from non-performance by these parties.

None of the above assets are either past due or impaired except for the following amounts in trade and outgrower receivables (which are due within 30 days of the end of the month in which they are invoiced).

The trade receivables which were past due but not impaired relate to a number of independent customers for whom there is no history of default. The ageing analysis of these trade receivables is as follows:

	2023 Shs'000	2022 Shs'000
Past due but not impaired:		
- by up to 30 days	3,300	728
- by 31 to 60 days	1,464	373
	4,764	1,101

Notes (continued)

5 Financial risk management (continued)

(iv) Credit risk (Continued)

	2023 Shs'000	2022 Shs'000
Total receivables:		
Carrying amount before provision for impairment loss	1,311,370	1,341,549
Provision for impairment loss	(1,249,312)	(1,300,367)
	<hr/>	<hr/>
Net carrying amount	62,057	41,182
	<hr/>	<hr/>

The individually impaired receivables mainly relate to wholesalers, which are in unexpectedly difficult economic situations and doubtful outgrower balances. It was assessed that all trade receivables past due by more than 60 days are considered to be impaired, and are carried at their estimated recoverable value.

(v) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management and the Board maintains flexibility in funding by maintaining availability under committed credit lines.

Management performs cash flow forecasting and monitor rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs.

The Company's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

Surplus cash held by the Company, over and above the amounts required for working capital management are invested in interest bearing fixed deposit accounts.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows:

	Less than 1 year Shs'000	Over 1 year	Total
<b>At 30 June 2023:</b>			
<b>Liabilities</b>			
- borrowings	1,395,326	668,648	2,063,974
- trade and other payables	6,499,211	-	6,499,211
	<hr/>	<hr/>	<hr/>
Total financial liabilities (contractual maturity dates)	7,894,537	668,648	8,563,185
	<hr/>	<hr/>	<hr/>
<b>At 30 June 2022:</b>			
<b>Liabilities</b>			
- borrowings	1,370,895	863,266	2,234,161
- trade and other payables	6,188,514	-	6,188,514
	<hr/>	<hr/>	<hr/>
Total financial liabilities (contractual maturity dates)	7,559,409	863,266	8,422,675
	<hr/>	<hr/>	<hr/>

Notes (continued)

5 Financial risk management (continued)

(vi) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new capital or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	2023 Shs'000	2022 Shs'000
Total borrowings	2,063,973	2,234,161
Less: cash and cash equivalents	(66,343)	(153,351)
Net debt	1,997,630	2,080,810
Total equity	(4,822,471)	(4,355,428)
Total capital	(2,824,841)	(2,274,618)
Gearing ratio	-71%	-91%

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Notes (continued)

<b>6 Revenue</b>	<b>2023</b>	<b>2022</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Analysis of revenue by category:		
Sugar Sales	4,176,335	3,542,371
Molasses Sales	246,191	92,902
	<u>4,422,526</u>	<u>3,635,273</u>
<b>7 Cost of Sales</b>		
Cost of cane	1,817,005	1,941,947
Agriculture: Overheads	507,328	446,024
Agriculture: Depreciation	94,036	99,959
Manufacturing: Costs	994,788	840,625
Manufacturing: Depreciation	80,360	84,655
	<u>3,493,517</u>	<u>3,413,210</u>
<b>8 Other income</b>		
Interest on receivables from Outgrowers	2,125	274
Gain on disposal of fixed assets	-	-
Miscellaneous income	3,944	2,764
	<u>6,069</u>	<u>3,038</u>
<b>9 Distribution expenses</b>		
Marketing and advertising	115	142
Production distribution	15,671	12,860
	<u>15,786</u>	<u>13,002</u>

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Notes (continued)

10	<b>Administrative expenses</b>	<b>2023</b> Shs'000	<b>2022</b> Shs'000
	Staff costs(Administrative departments)	400,479	343,331
	Provisions	300,678	(14,020)
	Rates, Levies and insurance	439,797	217,969
	Depreciation(Administrative)	38,287	29,783
	Travel and accommodation	8,824	9,667
	Repairs & Maintenance	15,393	35,316
	Mobile Equipment usage expenses	5,408	5,590
	Board & Directors costs	1,774	-
	Spares & Consumables	21,547	31,623
	Audit & Consultancies	4,080	2,855
	Staff Acquisition & Development costs	5,294	3,146
	Utilities	4,421	3,584
	Other administrative costs (Net of recoveries)	58,332	(74,705)
		1,304,314	594,139
	The company offers services such as land development, farm inputs harvesting transport to farmers. These costs are subsequently recovered from the farmers at the point of payment.		
11	<b>Finance costs</b>		
	Interest expense-CF(SDF) and GoK loans	127,792	132,922
	Bank charges	750	1,027
	Financing overheads	1,643	756
		130,185	134,705
12	<b>Employee benefits expense</b>		
	Salaries and wages	1,021,488	996,522
	Retirement benefits costs:		
	- Defined contribution scheme	73,125	(41,272)
	- National Social Security Funds	3,901	1,652
		1,098,514	956,902
13	<b>Income tax credit</b>		
	Deferred income tax (Note 25)	(6,582)	(1,656)
	Current income tax (misc. income)/ Deferred tax asset not recognised	862	1,656
		(5,721)	-
	Total Income tax credit		

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Notes (continued)

13 Income tax expense (continued)

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

	2023 Shs'000	2022 Shs'000
<b>Loss before income tax</b>	(514,985)	(516,835)
Tax calculated at the statutory income tax rate of 30%	(154,495)	(155,050)
Tax effect of:		
Items not deductible for tax purposes	99,654	-
Under provision of deferred income tax in prior year	-	-
Deferred income tax asset not recognised	-	-
<b>Income tax expense</b>	<u>(54,841)</u>	<u>-</u>

Deferred income tax asset derecognition is made on the basis that it's not reasonably expected that the company would make profit in the foreseeable future to clear the accumulated losses.

Movement on deferred income tax on other income is as follows:

	2023 Shs'000	2022 Shs'000
Opening income tax on other come	(7,419)	(7,419)
Income tax liability/asset (movement)	(862)	-
<b>Income tax liability/asset</b>	<u>(8,281)</u>	<u>(7,419)</u>

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Notes (continued)

14 Property, plant and equipment (continued)

	Leasehold Land Shs'000	Building Shs'000	Plant and machinery Shs'000	Trailers, tractors and motor vehicles Shs'000	Office and other equipment Shs'000	Roads and fencing Shs'000	Work in progress Shs'000	Bearer plants Shs'000	Total Shs'000
<b>Year ended 30 June 2022</b>									
Opening net book amount	922,182	581,237	2,158,743	335,543	14,178	93,270	249,956	137,111	4,492,220
Additions	-	-	2,130	8,017	323	-	68,540	-	79,010
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-
Depreciation charge	(9,606)	(26,413)	(67,955)	(83,599)	(5,962)	(4,240)	-	(16,360)	(214,135)
Depreciation adjust	-	-	-	-	-	-	-	-	-
Closing net book amount	912,576	554,825	2,092,918	259,958	8,541	89,032	318,497	120,750	4,357,096
<b>At 30 June 2022</b>									
Cost or valuation	1,000,502	891,746	4,395,542	1,426,737	304,717	137,402	318,497	238,268	8,713,411
Accumulated depreciation	(87,926)	(336,921)	(2,302,624)	(1,166,780)	(296,176)	(48,370)	-	(117,518)	(4,356,315)
Net book amount	912,576	554,825	2,092,918	259,958	8,541	89,032	318,497	120,750	4,357,096

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Notes (continued)

14 Property, plant and equipment (continued)

	Leasehold Land Shs'000	Building Shs'000	Plant and machinery Shs'000	Trailers, tractors and motor vehicles Shs'000	Office and other equipment Shs'000	Roads and fencing Shs'000	Work in progress Shs'000	Bearer plants Shs'000	Total Shs'000
<b>Year ended 30 June 2023</b>									
Opening net book amount	912,576	554,825	2,092,918	259,958	8,541	89,032	318,497	120,750	4,357,097
Additions	-	-	-	11,207	1,416	-	20,399	-	33,022
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	(2,220)	(31,152)	-	-	-	-	(33,372)
Depreciation charge	(9,606)	(26,413)	(67,955)	(82,024)	(5,962)	(4,240)	-	(16,360)	(212,560)
Depreciation adjust	-	-	2,275	31,152	-	-	-	-	33,427
Closing net book amount	902,970	528,412	2,025,018	189,141	3,995	84,792	338,896	104,390	4,177,614
<b>At 30 June 2023</b>									
Cost or valuation	1,000,502	891,746	4,393,322	1,406,712	306,134	137,402	338,896	243,822	8,718,536
Accumulated depreciation	(97,532)	(363,334)	(2,368,304)	(1,217,572)	(302,138)	(52,610)	-	(139,432)	(4,540,922)
Net book amount	902,970	528,412	2,025,018	189,140	3,996	84,792	338,896	104,390	4,177,614

Work in progress largely relates cost of upgrading the plant and machinery which is an ongoing process.

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Notes (continued)

14 Property, plant and equipment (continued)

The Company's property, plant and equipment were revalued on 30 June 2018, by Milligan Valuates Limited. Valuations were made on the basis of estimated open market value. The revaluation surplus net of applicable deferred taxes was credited to other comprehensive income and is shown in other reserves in shareholder's equity.

If the property, plant and equipment were stated on the historical cost basis, the amounts would be as follows:

	2023 Shs'000	2022 Shs'000
Cost	8,978,648	8,965,843
Accumulated depreciation	(4,798,239)	(4,613,508)
Net book amount	<u>4,180,409</u>	<u>4,352,335</u>

Bank borrowings are secured on immovable property (Land/Buildings/Part of buildings)

15 Intangible assets

	Software Shs'000	WIP Shs'000	Totals Shs'000
<b>Year ended 30 June 2022</b>			
Opening net book value	388	2,795	3,183
Additions	-	-	-
Amortisation charge	(263)	-	(263)
Closing net book amount	<u>125</u>	<u>2,795</u>	<u>2,920</u>
<b>At 30 June 2022</b>			
Cost	257,317	2,795	260,112
Accumulated amortisation	(257,192)	-	(257,192)
Net book amount	<u>125</u>	<u>2,795</u>	<u>2920</u>

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15 Intangible assets (Continued)	Software Shs'000	WIP Shs'000	Totals Shs'000
<b>Year ended 30 June 2023</b>			
Opening net book value	125	2,795	2,920
Additions	-	-	-
Amortisation charge	(125)	-	(125)
Closing net book amount	-	2,795	2,795
<b>At 30 June 2023</b>			
Cost	257,317	2,795	260,112
Accumulated amortisation	(257,317)	-	(257,317)
Net book amount	-	2,795	2,795
<b>16 Biological assets</b>			
<b>Year ended 30 June 2022</b>			
	Cane	Dairy	Total
At start of year	259,841	1,471	261,312
Additions due to development of cane	131,082	-	131,082
Transfer to bearer plant	-	-	-
Decrease due to harvest	(111,245)	-	(111,245)
Losses arising from changes in fair value less costs to sell of biological assets	-	90	90
At end of year	279,678	1,561	281,239
<b>Year ended 30 June 2023</b>			
	Cane	Dairy	Total
At start of year	279,678	1,561	281,239
Additions due to development of cane	181,301	-	181,301
Transfer to bearer plant	-	-	-
Decrease due to harvest	(173,782)	-	(173,782)
Losses arising from changes in fair value less costs to sell of biological assets	-	(222)	(222)
At end of year	287,198	1,339	288,537

Notes (continued)

16 Biological assets (continued)

Valuation of Biological Assets-Cost model

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

17 Inventories

	2023 Shs'000	2022 Shs'000
Factory and agriculture spares	246,597	245,563
General consumables	97,352	84,210
	343,949	329,773
Finished goods (sugar & molasses)	7,944	4,664
Sugar in process	41,410	36,127
Goods in transit	7,417	21,715
	400,720	392,279

18 Trade and other receivables

	2023 Shs'000	2022 Shs'000
Trade receivables	81,245	75,262
Less: provision for impairment losses	(73,536)	(73,461)
Net trade receivables	7,709	1,801
Other receivables and prepayments	180,811	200,384
Less: provision for impairment losses	(169,536)	(169,536)
Net other receivables	11,275	30,847
	18,984	32,648

18a Trade and other receivables

	2023 Shs'000	2022 Shs'000
At June 30, the ageing analysis of gross Trade Receivables was as follows:		
Less than 30 Days	6,039	850
Between 30 and 60 Days	450	280
Between 61 and 90 Days	63	104
Between 91 and 120 Days	2,234	473
Over 120 Days	72,459	73,555
	81,245	75,262

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Included in trade and other receivables is Kshs 18.2 million relating to staff costs in respect of three staff who were seconded to Agriculture food Authority, Muhoroni/Miwani sugar and Chemelil Sugar.

Movements on the provision for impairment of trade and other receivables are as follows:

	<b>2023</b> <b>Shs'000</b>	<b>2022</b> <b>Shs'000</b>
At start of year	242,998	238,632
Charge to profit or loss	75	4,366
	<hr/>	<hr/>
At end of year	243,073	242,998

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable above. The Company does not hold any collateral security against the receivables. The fair value of trade and other receivables approximates their carrying value.

<b>19 Receivables from outgrowers</b>	<b>2023</b> <b>Shs'000</b>	<b>2022</b> <b>Shs'000</b>
Billable inputs and services	806,459	808,095
Unbilled services	67,778	67,778
Accrued interest on land development	175,077	190,030
	<hr/>	<hr/>
Gross receivables from Outgrowers	1,049,314	1,065,903
Less: provision for impairment losses	(1,006,240)	(1,057,369)
	<hr/>	<hr/>
	43,074	8,534

Movements on the provision for impairment of Outgrower receivables are as follows:

	<b>2023</b> <b>Shs'000</b>	<b>2022</b> <b>Shs'000</b>
At start of year	1,057,369	1,063,519
Charge to profit or loss/(write back)	(51,129)	(6,150)
	<hr/>	<hr/>
At end of year	1,006,240	1,057,369

The Company recovers the investment in Outgrowers against payments to Outgrowers upon harvesting of the sugarcane.

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Notes (continued)

20 Cash and bank balances

For the purposes of the statement of cash flows, cash and cash equivalents include the following:

	2023 Shs'000	2022 Shs'000
Cash and bank balances	66,343	153,351
Bank overdrafts	-	-
	<u>66,343</u>	<u>153,351</u>

Cash and bank balances details:

Petty cash account -Kisumu	-	-
Petty cash account -Nairobi	-	-
Lipa na Mpesa Paybill	-	-
Barclays Bank of Kenya-Kisii – Acct 0081222509	1,557	2,570
Co-operative Bank-Migori- Acct 01136204628700	2,145	35,318
Kenya Commercial Bank-Migori- Acct 1106321308	20,259	153
National Bank of Kenya Awendo- Acct 01001045348700	15,063	31,112
Co-operative Bank Capex-Migori-Acct 01136204628701	9,639	14,460
Co-op Bank –VAT/SDL –Rongo- Acct 01136204628702	10,537	7,232
Co-operative Bank-Farmers-Rongo- Acct 01136204628703	624	629
NBK project account-Acct 01001045348702	6,519	1,877
Co-op Bank- Escrow acct HQ-Acct No-01692204628701	-	-
	<u>66,343</u>	<u>153,351</u>

21 Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 July 2022 and 30 June 2023	17,698,500	353,970

The total authorized number of ordinary shares is 18,000,000 with a par value of Shs 20 per share.  
 The issued and fully paid shares are 17,698,484 with a par value of Shs 20 per share.

Shareholding composition:

	2023 Shs'000	2022 Shs'000
Government of Kenya	349,720	349,720
Industrial and Commercial Development Corporation	2,500	2,500
Industrial Development Bank	1,000	1,000
Mehta Group International	750	750
	<u>353,970</u>	<u>353,970</u>

Notes (continued)

**22 Revaluation reserve**

The revaluation reserve represents solely the surplus on the revaluation of property equipment net of deferred income tax and is non-distributable.

Year ended 30 June 2022	Shs'000
At start of year	3,413,405
Assets revaluation	-
	<hr/>
At end of year	3,413,405
	<hr/> <hr/>
Year ended 30 June 2023	
At start of year	3,413,405
Asset revaluation	-
	<hr/>
At end of year	3,413,405
	<hr/> <hr/>

**23 Other reserves**

	2023 Shs'000	2022 Shs'000
At start of the year	22,947	11,121
Comprehensive income	48,804	11,826
	<hr/>	<hr/>
At end of the year	71,751	22,947
	<hr/> <hr/>	<hr/> <hr/>

As disclosed above, other reserves relate to actuarial gains/losses arising out of the remeasurement of the retirement benefit obligation.

**24 Grants**

The balances represent grants from Commodities Fund for purchase of machinery for road maintenance, construction of bridges and payment of farmers' arrears. Assets are amortized over the life of the machinery. Additions during the year relates to funds paid directly to farmers' accounts by the Government. The movement in the year is as follows:

	2023 Shs'000	2022 Shs'000
At start of year	778,326	586,768
Additions	124,124	195,452
Amortisation charge	(3,869)	(3,894)
	<hr/>	<hr/>
At end of year	898,581	778,326
	<hr/> <hr/>	<hr/> <hr/>

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Notes (continued)

25 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30%. The gross movement on the deferred income tax account is as follows:

	2023 Shs'000	2022 Shs'000
At start of year	16,153	11,083
Credit to income statement/ comprehensive income (Note 13)	(6,582)	-
Debit to other comprehensive income	18,095	5,069
(Over)/under provision of deferred income tax in prior year	-	-
Deferred income tax not recognized	-	-
	<hr/>	<hr/>
At end of year	27,666	16,153
	<hr/>	<hr/>

The deferred income tax assets and liabilities, deferred income tax charge/(credit) in the income statements are attributable to the following items:

Year ended 30 June 2023	1 July 2022 Shs'000	Charged/ (credited) to P/L Shs'000	(Credited to equity) Shs'000	30 June 2023 Shs'000
<b>Deferred income tax liabilities</b>				
Property, plant and equipment:				
- on historical cost basis	528,854	(1,249)	-	527,605
- on revaluation surplus	614,471	-	-	614,471
Biological assets	102,482	-	-	102,482
	<hr/>	<hr/>	<hr/>	<hr/>
	1,245,807	(1,249)	-	1,244,558
<b>Deferred income tax assets</b>				
Other temporary differences	(636,094)	16,435	-	(619,659)
Post-employment benefit obligation	(125,057)	(13,027)	-	(138,084)
Tax losses	(2,128,875)	(24,099)	-	(2,152,974)
	<hr/>	<hr/>	<hr/>	<hr/>
	(2,890,026)	(20,691)	-	(2,910,717)
	<hr/>	<hr/>	<hr/>	<hr/>
Net deferred income tax	(1,644,219)	(21,941)	-	(1,666,160)
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred income tax not recognised	1,656,296	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Final deferred income tax	16,153	(6,582)	18,095	27,666
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

Year ended 30 June 2022	1 July 2021 Shs'000	Charged to P/L Shs'000	Charged to equity Shs'000	30 June 2022 Shs'000
<b>Deferred income tax liabilities</b>				
Property, plant and equipment:				
- on historical cost basis	399,457	129,397	-	528,854
- on revaluation surplus	403,680	210,791	-	614,471
Biological assets	102,482	-	-	102,482
	1,221,719	(19,296)	-	1,202,423
<b>Deferred income tax assets</b>				
Other temporary differences	(633,264)	(2,830)	-	(636,094)
Post-employment benefit obligation	22,453	(131,649)	(15,861)	(125,057)
Tax losses	(2,023,858)	(105,017)	-	(2,128,875)
	(1,954,470)	(811,812)	(15,861)	(2,782,143)
Net deferred income tax asset	(1,048,851)	(471,624)	(15,861)	(1,536,336)
Deferred income tax asset not recognised				1,656,296
	1,558,503	130,099	-	
<b>Final deferred income tax</b>	7,469	8,684	5,069	16,153

26	Trade and other Payables	2023 Shs'000	2022 Shs'000
	Trade payables	390,690	337,373
	Customer payments in advance	96,735	94,419
	Other payables and accrued expenses	6,003,505	5,749,304
		<b>6,490,930</b>	<b>6,181,096</b>

The carrying amounts of the above payables and accrued expenses approximate to their fair value.

26a Trade and other payables

	2023	2022
At June 30, the ageing analysis of gross Trade Payables was as follows:	<b>Shs'000</b>	<b>Shs'000</b>
Less than 30 Days	22,704	51,649
Between 30 and 60 Days	35,497	13,901
Between 61 and 90 Days	18,859	20,541
Between 91 and 120 Days	27,240	8,445
Over 120 Days	286,390	242,837
	390,690	337,373

27 Borrowings

	2023 Shs'000	2022 Shs'000
Commodities fund (SDF) loan	503,336	503,246
Government of Kenya (GOK/ODA)	891,990	867,649
Co op bank	668,648	863,266
KCB	-	-
	2,063,974	2,234,161
<b>i) Maturity analysis</b>		
<b>Non-current</b>		
Commodities fund (SDF) loan	-	-
Co op bank	668,648	863,266
<b>Current</b>		
Commodities fund (SDF) loan	503,336	503,246
KCB	-	-
Government of Kenya (GOK/ODA)	891,990	867,649
	1,395,326	1,370,895
<b>Total GOK/CF loans</b>	2,063,974	2,234,161
Bank overdraft	-	-
<b>Total borrowings</b>	2,063,974	2,234,161

- Commodities Fund loans of Kshs 503M had fallen due for payment as at 30.06.2023.
- GOK/ODA loans totalling Kshs 892M had fallen due for payment as at 30.06.2023.
- The Company has a long term performing loan with Co-op bank to the tune of Kshs 669M payable within 60 months on reducing balance basis.

The carrying amount of the borrowings approximates to the fair value, as the impact of discounting is not significant.

Loans movement	G.o.K Shs '000	CF Shs'000	Co op Kshs	Total Shs '000
<b>At start of year</b>	<b>867,649</b>	<b>503,246</b>	<b>863,266</b>	<b>2,234,161</b>
Additions	-	-	-	-
Accrued interest	24,340	92	1,097	25,529
Movement/payment	-	-	(195,716)	(195,716)
Net movement	24,340	92	(194,619)	170,187
<b>At end of year</b>	<b>891,989</b>	<b>503,338</b>	<b>668,647</b>	<b>2,063,974</b>

28 Cash generated from operations	2023 Shs'000	2022 Shs'000
Reconciliation of profit before income tax to cash generated from operations		
Loss before income tax	(514,985)	(516,835)
<b>Adjustments for:</b>		
Interest income (Note 8)	(2,125)	(274)
Interest expense(Note 11)	130,185	134,705
Loss/(gain) on disposals of property plant & equipment	-	-
Changes in biological assets(Note 16)	1,339	(11)
Decrease due to harvest	-	-
Depreciation of property, plant and plant (Note 14)	212,421	214,135
Amortisation of intangible assets (note 15)	262	262
Items expensed from WIP (note 15)	-	-
Grant amortization (Note 24)	3,870	3,894
Post-employment benefit obligation	60,317	16,895
<b>Changes in working capital:</b>		
- Inventories	(8,441)	(56,227)
- Trade and other receivables	13,665	9,692
- Outgrowers' balances	(126,722)	203,180
- Trade and other payables	309,835	276,320
Cash generated from operations	79,621	285,736

29 Retirement benefit obligations

The company operates a gratuity scheme based on employee remuneration and length of service. The plan is internally funded.

The amounts recognized in the statement of financial position are as follows:

	2023 Shs'000	2022 Shs'000
Present value of unfunded obligations	331,105	366,341

The movement in the defined benefit obligation over the year was as follows:

	2023 Shs'000	2022 Shs'000
At start of year	366,341	385,435
Net periodic cost	60,747	63,852
Movement in the year	(35,666)	(66,051)
Remeasurement	(60,317)	(16,895)
	<hr/>	<hr/>
Liability in the statement of financial position	<u>331,105</u>	<u>366,341</u>

**29 Retirement benefit obligations (continued)**

The principal actuarial assumptions used were as follows:

	2023	2022
-discount rate	15.00%	13.75%
-inflation	8.00%	8.00%
-salary increases	9.50%	9.50%
	<hr/>	<hr/>

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

*Salary increase sensitivity*

	At current salary increase rate Shs'000	1% Increase Shs'000	1% Decrease Shs'000
<b>At 30 June 2022</b>			
Present value of obligation	366,341	343,546	391,725
Percentage changes	-	1.00%	(1.00%)
	<hr/>	<hr/>	<hr/>
<b>At 30 June 2023</b>			
Present value of obligation	331,105	327,794	334,416
Percentage changes	-	1.00%	(1.00%)
	<hr/>	<hr/>	<hr/>

Assumptions regarding future mortality experience are set based on published statistics and experience in the industry.

Since the bulk of the benefits payable under the scheme are salary related and there are no pensions paid from the scheme, the sensitivity of the liability to a change in the salary escalation assumption is expected to be consistent with the sensitivity to the discount rates

Notes (continued)

30 Related party transactions

a.) Government of Kenya

The Company is controlled by the Government of Kenya with 99% ownership. IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

Transactions with related parties:

i) Key management compensation

Key management includes executive Directors and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2023 Shs'000	2022 Shs'000
Salaries and other short-term employment benefits	<u>33,432</u>	<u>33,109</u>

ii) Directors' remuneration

Remuneration as management	198	-
Fees and allowances for services as director	1,774	-
	<u>1,972</u>	<u>-</u>

iii) Government of Kenya

During the year, the Government released Kshs 124.1M. towards factory maintenance and paid directly to various suppliers. These funds were released through Agriculture Food Authority. The Government is yet to give direction on the treatment of these funds in our books.

	2023 Shs'000	2022 Shs'000
Total bailout by the Government during the year (Grant)	<u>124,124</u>	<u>195,454</u>

31 Contingent liabilities

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. The Company also has an open tax items for the last two years in respect to importation of sugar under tax exemption regime where KRA is demanding Kshs 2,905,607,000 in taxes. This matter is still under discussion with the revenue authority.

A number of litigation cases regarding burnt over-mature cane which the Company was unable to harvest have been lodged at law courts.

Notes (continued)

A summary of the pending cases and claims against the Company is as follows:-

	2023 Shs'000	2022 Shs'000
Farmers' cases	2,005,455	165,000
Staff cases	-	100
Tax matters	2,905,607	2,905,607
	<hr/>	<hr/>
	4,911,062	3,070,707
	<hr/> <hr/>	<hr/> <hr/>

The management have made accumulative provision in the financial statements amounting to Kshs. 198 million based on legal advice. The management do not believe that any significant additional liability will arise from the resolution of these matters.

**32 Capital Commitments**

Capital expenditure contracted for at the reporting date but not recognized in the financial statements is as follows:

	2023 Shs'000	2022 Shs'000
Authorized but not contracted	328,300	189,060
Authorized and contracted	88,300	80,827
	<hr/>	<hr/>
	416,600	269,887
	<hr/> <hr/>	<hr/> <hr/>

**IMPLEMENTATION STATUS OF AUDITOR GENERAL PRIOR YEAR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
1	<p><b>Unsupported long outstanding debtors:</b> Included in advocate deposits is an amount of Kshs 25,141,000 whose existence could not be confirmed since management did not provide relevant documents to support the amount.</p>	<p>Request for the payment of deposits would be initiated upon receipt of advice from the law firm that represented the Company in the case. All such deposits are supported by such letters from Company lawyers.</p> <p>In certain instances, the said lawyers would forward to the Company specific orders that were made by the court in respect to the deposit.</p> <p>Evidence of deposits in Joint names attached for your reference Doc 1.1.</p>	<p>Cases in this respect have not been concluded.</p>
2	<p><b>Undisclosed receivables relating to staff on secondment:</b> The trade and other receivables net balance Kshs. 32,648,000 excludes and amount of Kshs. 9,999,000 relating to staff costs in respect of two (2) employees who were seconded to Agriculture and Food Authority and Muhoroni and Miwani Sugar Companies. Although, the organization made written commitments to reimburse the amount to the Company, they had not done so as at 30th June, 2022.</p>	<p>The Company has made several attempts to seek reimbursements from the organizations where our staff have been seconded and the organizations have made commitments to reimburse the staff cost upon improvement of their financial health.</p> <p>It's important to note that at the time of audit, only one staff was on secondment. Letters of commitments to pay the outstanding debt attached for your reference in Doc 1.2.</p> <p>Outstanding amounts forms part of receivables</p>	<p>As at 30.06 2023, the Company had no staff on secondment. Amount outstanding in respect of staff cost is disclosed in Note 18 of the Financial statement.</p>
3	<p><b>Material uncertainty related to Going Concern:</b></p> <p>I draw attention to Note 4 to the financial statements which indicates that the Company incurred a net loss after tax amounting to Kshs. 505,009,000 (2021 – Kshs. 1,343,115,000) during the year and had accumulated losses of Kshs. 8,145,750,000 as at 30th June, 2022 (Kshs. 7,628,915,000). In addition the Company's current liabilities of Kshs. 7,559,409,000 exceeded its current</p>	<p>The company has registered remarkable improvement for the last three years by reporting a loss of Kshs 1.6 billion in year 2019/2020, 1.3 billion in the year 2020/2021 with the year under review reporting a significant reduction in loss to Kshs 505 million. Similarly, for the last three years, the Company has recorded improvement in Rendement posting from 3.49% in 2019/2020 to 6.96% in the year 2020/2021 and 8.6% in the year under review. With the just concluded comprehensive</p>	<p>The Company is on a recovery path. Availability raw material is the challenge in realizing faster growth.</p>

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
	<p>assets of Kshs.868,051,000, resulting in a negative working capital of Kshs.6,691,358,000 (2021 – Kshs. 6,509,515,000). These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern.</p>	<p>maintenance carried out between November/December 2022, recovery (Rendement) rate has improved further to 10.5% as at the date of this later.</p> <p>Further, the management has outlined interventions to mitigate the risks as follows:</p> <ol style="list-style-type: none"> <li>a. The Company is currently operating under austerity budget based on the level of activities. This will help in management of payroll cost to contain the wage bill. It's also important to emphasize that procurement of Capital items is currently based on priority basis so as to cut on unnecessary costs.</li> <li>b. Contributing to general under performance for the period under review was lower recoveries arising from operating the plant/factory below capacity. The company is at the moment factory maintenance to further enhance factory efficiency. This is projected to boost efficiency further to over 85%</li> <li>c. To further enhance revenue after maintenance, the Company will increase capacity for branded sugar given that branded sugar is more profitable.</li> <li>d. Product diversification of molasses packaging is in plan with a view to help the Company have an additional revenue stream post the next maintenance.</li> <li>e. The Company has come up with workable payment plans to address the outstanding obligations including the loans that have fallen current.</li> </ol> <p>As demonstrated in the results achieved in the last two years, we are determined to keep in focus the going concern issues and strategically tackle the challenges that impact negatively on the business.</p>	

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
		Based on the above, the Management believes that the Company will continue in operational existence for at least 12 months from the date of the approved financial statements. We therefore believe that it is appropriate to prepare the Company's financial statements on a going concern basis as current level of performance, gives reasonable indications of improvement thus providing relief for distress evidenced by the above numbers.	
4	<p><b>Budgetary control and performance:</b> The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable of Kshs. 4,551,345,000 and Kshs. 3, 635,183,000 respectively, resulting to under-performance of Kshs. 916,163,000 or 20% of the budget.</p> <p>In the circumstances, the under-performance affected the planned activities and may have impacted negatively on service delivery to the public</p>	<p>The company has been on a recovery path for the last three years though operating below budgeted performance indicators. That state of affairs is drawn from delayed maintenance resulting to serious operational challenges bordering on cash flow.</p> <p>Company statistics points out at gradual improvement on performance indicators in the year under audit and the two previous years. The situation is projected to further improve in the following year going by the latest performance indicators. As at the date of this letter, rendement (recovery ratio) is in line with the industry standards of 10%.</p>	The Company is still operating below the budget due to acute shortage of raw material.
5	<p><b>Unresolved Prior Year Matters</b> In the audit report of the previous year, several issues were raised under the Report on Financial Statement and the report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the public Sector Accounting Standards Board templates</p>	Your observations are noted. From 16th July 2020, the Company has operated without members of the Board. Subsequently, we have had a challenge in complying with the financial reporting standards to the extent that the statements of the Chairman and the Board of Directors had not been included in the financial statements submitted for audit for the financial years ending 30th June 2021 and 30th June 2022.	The Government did via gazette notice dated 14 <sup>th</sup> April 2023 reconstituted the Board. Information now included.

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
		<p>The absence of the Board has also affected compliance on Statement of Directors responsibilities.</p> <p>The Government dissolved the entire Board on the 16th July 2020 through Gazette Notice CXXII-NO.148 dated 3rd August 2020.</p> <p>We will comply with the standard accordingly once the appointments of the Board members are made by the appointing authorities.</p>	
6	<p><b>Rendement (Yield) Below the Industry Standards:</b></p> <p>The statement of profit or loss and other comprehensive income reflects gross sales amount of Kshs.4, 216,916,000. However, records provided for audit indicated that the Company Milled 497,551 tonnes of cane during the year under review and produced 42,104 tonnes of sugar bagged, resulting to a renderment in the last three (3) years, the 8.6% was below the recommended industry standard of 10%.</p> <p>In the circumstances, the efficiency of the factory was still below the standards set by the industry.</p>	<p>For the last three years, the Company has recorded improvement in Rendement posting from 3.49% in 2019/2020 to 6.96% in the year 2020/2021 and 8.6% in the year under review. Gross revenue has similarly improved from Kshs 410,608,000 in the 2019/2020 to Kshs 2,382,719,000 in the year 2020/2021 and Kshs 4,216,916,000 in the year under review.</p> <p>Improvement in rendement has led to improvement in revenue. After the just concluded comprehensive factory maintenance carried out between November/December 2022, we project rendement to stabilize at the industry standard of 10% with continuous crushing subject to steady supply of raw material.</p>	Shortage of raw material has affected continuous operation impacting on rendement
7	<p><b>Long Outstanding Trade and Other Payables:</b></p> <p>The statement of financial position reflects trade and other payables balance of Kshs. 6,167,471,000 which, according to the aging analysis provided for audit, includes a balance of Kshs. 5,074,724,000 comprising trade payables and other payables and accrued expenses of Kshs. 242,836,000 and Kshs. 4,831,888,000 respectively that had been outstanding for a period of over 120 days, some dating as far back as the financial year 2015/2016. This is contrary to provisions of the National</p>	<p>For nearly five (5) years prior to May 2020, the company did not carry out factory maintenance resulting to Low extraction and frequent breakdowns hence compromising the cash flow position making the Company unable to meet its obligations. This situation was compounded by the effects of the Corona Virus which affected the movement of people and critical production inputs.</p> <p>The impact of the challenges above contributed to the build-up of the pending bills as reflected in the company books as at 30.06.2022.</p>	Acute shortage of raw material has impacted negatively on cash flow making it difficult to address the backlog alongside current obligation.

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
	<p>Treasury Circular No. 7/2021, which requires that in order to ensure that there is no accrual in payment arrears (pending bills), accounting officers should ensure that carry over payments emanating from the FY 2020/2021 are treated as a first charge against the budgetary allocation before entering into any new commitments.</p>	<p>With the two maintenance carried out between May/August 2020 and June/August 2021, remarkable improvement has been recorded in the management of the pending bills. This has improve after the factory rehabilitation carried out between November/December 2022. The efficiency rate of the factory as at the date of this later is over 85%.</p> <p>We strongly believe that in two years we shall fall current in most of the company obligations.</p>	
8	<p><b>Employees in acting capacity:</b> The employees benefit expenses of Kshs. 956,902,000 includes acting allowances amounting to Kshs. 21, 143, 00 in respect of employees who had served in an acting capacities for more than six (6) months without confirmation or advertisement of vacancies. This is contrary to section 34 of Public Service Act, 2017.</p>	<p>The Company experienced high staff turnover in the recent past. However the Government through circular Ref: OP/CAB.39/4A dated July 28, 2017 and ref. MOAALF&amp;C/CS/ADM/30 dated July 7, 2020 froze recruitment/ confirmation of staff thus resulting into staff acting on the vacant positions beyond the stipulated time pending competitive filling of the vacant positions. (Refer to doc 2.1 attached). In addition, HR instruments has not been approved to help in the process</p>	<p>Still outstanding. HR instrument has been forwarded to relevant body pending approval.</p>
9	<p><b>Engagement of Casual Employees:</b> The employees benefits expenses of Kshs. 956,902,000 also includes an expenditure of Kshs. 101,429,000 incurred on the payment of wages for seven hundred and fifty-eight (758) casual employees in various departments, who had worked continuously for a period of 12 months from July to June, 2022. This is contrary to Paragraph 1.14 (ii) o the Staff administration Code for the Company, revised 2007, which states that casual labour may be hired for a period not exceeding ninety (90) days continuously. Further, the casuals had been performing tasks that the permanent in nature and not short-term tasks. In the Circumstances, the Company was in breach of the South Nyanza Sugar</p>	<p>The Company experienced high staff turnover in the recent past. However the Government through circular ref: OP/CAB.39/4A (attached) dated July 28, 2017 froze recruitment of new staff. The Company has therefore relied on contract staff</p>	<p>Matter still outstanding</p>

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
	Company Limited Staff Administration Code, Revised 2007.		
10	<p><b>Violation of One Third of Basic Salary Rule</b></p> <p>An analysis of the payroll of permanent staff for the month of June, 2022 indicated that thirty (30) employees received net pays that were below third of their respective basic salaries.</p> <p>In the circumstances, the Management was in breach of the law.</p>	<p>The issue raised is hereby noted. The affected staff have been faced with huge medical bills which were earlier loaded on their payslips. The management is determined to manage these issue with a view to comply. Remarkable improvement has been made in the year under review.</p>	<p>Matter closed/ Resolved</p>
11	<p><b>Non Compliance with the Law on Ethnic Composition of Staff</b></p> <p>Review of the staff establishment for the year under review revealed that 86% of the Company's staff were from the same community.</p> <p>In the circumstances, the Management was in breach of the law.</p>	<p>Prior to the promulgation of the Constitution 2010, the Company had most of its employees from one ethnic community, however the Company has made efforts to comply as exhibited in new recruitments. Since the promulgation of the Constitution the Company has recruited 141 new staff out of which 44 staff are from a different ethnic communities. This represents 27% improvement from the overall 14% to 31%. The geographical location has posed a challenge in attracting some communities e.g. people from central and coast regions. The labor intensive type of operations is not attractive to some communities.</p>	<p>Compliance in progress</p>
12	<p><b>Property, Plant and Equipment – Capital Work in Progress</b></p> <p>The statement of financial position reflects property, plant and equipment balance of Kshs. 4,357,096,000 which as disclosed in Note 14 to the financial statements, includes work in progress balance of Kshs. 318,497,000 out of which Kshs. 68,540,000 was addition for the year under review. However, included in the latter is an amount of Kshs. 12,991,215, relating to an advance payment in respect of the contract for manufacture supply, installation and commissioning of Rock Removal System which was awarded at a contract sum Kshs.64, 956,000 for contract period of 21 weeks ending on 28th March 2018, following a competitive tendering process. According to the contract, 20% of the contract sum (i.e Kshs.</p>	<p>This project was conceived some time in 2014 with the objective of mitigating the then rampant incidences of stones coming with cane that frequently caused damage to the cane preparatory devices, leading to prolonged downtimes hence loss of production time.</p> <p>Progress of this project has largely been affected by the unfavorable circumstances associated with delayed factory maintenance the Company found itself in, and not lack of capacity on the part of the Contractor.</p>	<p>Still outstanding/ Not resolved</p>

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
	<p>12,991,000) was to be paid along with order against a bank guarantee of equivalent amount. The Company made part payment of Kshs. 12,991,000 on 31st January, 2018 as stipulated in the contract. The contractor supplied part of Retrofit of rock removal system but inspection and acceptance report was not provided for audit review.</p> <p>Further, although the contract period had elapsed, the contractor had only delivered part of the advanced amount of Kshs. 12,991,000 after five (5) years, casting doubt on the capacity of the contractor to deliver the whole contract.</p> <p>In the circumstances, value for money of the advance of Kshs. 12,991,000 could not be confirmed. Further, the delayed delivery of the Rock Removal System may adversely affect the performance of the Company.</p>		
13	<p><b>Failure to Remit Statutory Deductions to Statutory Bodies</b></p> <p>The statement of financial opposition reflects trade and other payables balance of Kshs. 6,167,471,000 which, as disclosed in Note 26 to the financial statements, includes othe payables and accrued expenses balance of Kshs. 5,735,679,000. The latter includes VAT of Kshs. 1,351,854,000 and Pay-As-Earn (PAYE) of Kshs. 475,665,000 that had not been remitted to Kenya Revenue Authority (KRA), and Kshs. 25,154,000 which had not been remitted to NSSF as required under the value added Tax Act, 2013, the income Tax Act and the National Social Security und Act, 2013.</p>	<p>Serious effort has been devoted to clearing the outstanding VAT and PAYE through engagements with KRA on challenges the company has been facing following for the last five years on poor performance of the factory due to delayed maintenance. Correspondence with KRA includes requests for moratorium and commitments which includes paying a minimum of Kshs 10 million every week. Refer to doc 3.0 attached.</p> <p>However, at the time of audit, the company had fallen current on NSSF remittances.</p>	<p>The Company is remitting Kshs 15 Million weekly as per Payment plan is in place.</p> <p>Matter Resolved.</p>
14	<p><b>Lack of Board of Directors</b></p> <p>Information provided indicated that the Company had operated without Board of Directors since 16th July, 2020. The appointment of the Board of Directors was revoked through the Kenya Gazette Notice Reference Vol. CXXII – No. 148 dated 22nd July, 2020. As a result, the corporate governance decisions had</p>	<p>The appointment of the Board is at the sole discretion of the Government of Kenya. The decision to dissolve the Board was for purposes of facilitating the intended leasing of public mills. The Company plays no role at all in the decision to appoint Board members.</p>	<p>Matter closed./ Resolved.</p> <p>The Government did via gazette notice dated 14<sup>th</sup> April</p>

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
	<p>been left to the Senior Management Committee and the parent Ministry. Further, there had been a challenge in complying with the financial reporting standards to the extent that the statements of the Chairman and the Board of Directors had not been included in the financial statements submitted for audit.</p>	<p>Even in the absence of the Board, the Company has made tremendous achievements in terms ensuring that annual plant maintenance is undertaken as and when required. When the Board was dissolved, the plant was at its worst state of disrepair as evident from previous performance reports.</p> <p>With strategic decisions being made by Management, plant maintenance was undertaken and the same is done as and when appropriate. This has ensured steady operations of the plant as can be seen from the current financial reports in terms of cane milled, rendement, sugar made, profit made amongst others.</p> <p>The Company, in the absence of the Board, deals directly with the parent ministry on all matters that would have otherwise required Board's approval. Through this, the Company has strived to meet her strategic objectives.</p>	<p>2023 reconstituted the Board.</p>
15	<p><b>Lack of an Audit Committee</b>                      During the year under review, the Company operated without an audit committee. This scenario was as a result of the revocation of the appointment of the Board of Directors on 16th July, 2020 through a Kenya Gazette Notice. The lack of audit committee had effect on the independence of internal audit unit as it reported, both administratively and functionally, to the Managing Director.</p> <p>In the absence of an audit committee, risk management, internal controls and governance process may be compromised.</p>	<p>Audit Committee is composed Board members and the disbandment of The Board in 2020 invalidated the existence of Audit Committee. It is the responsibility of the Board once appointed, to constitute various committees like Finance Committee, General Purpose Committee, Operations Committee and Audit committee as per the Company Board Charter.</p> <p>We believe that once the new Board is appointed, they will reconstitute Audit Committee as per the Public Audit Act, 2015.</p>	<p>Matter closed./ Resolved.</p> <p>The Government did via gazette notice dated 14<sup>th</sup> April 2023 reconstituted the Board. The committee is now in place</p>
16	<p><b>Lack of a Substantive Managing Director</b>                      During the year under review, the Company did not have a substantive Managing Director. The Management of</p>	<p>The managing Director has not been appointed substantively because the Government through circular Ref: OP/CAB.39/4A dated July 28, 2017 and ref. MOAALF&amp;C/CS/ADM/30 dated July 7,</p>	<p>U</p>

Ref No.	Observation from auditors	Management comments	Status, person responsible and timeframe
	<p>the Company affairs was being overseen by an Acting Managing Director who was appointed by the Board of Directors on 21st November, 2019. This happened due to revocation of appointment Board of Directors. The lack of a substantive Managing Director and Board of Directors poses a challenge on the corporate and governance structure of the Company.</p>	<p>2020 froze recruitment/ confirmation of staff thus resulting into staff acting on the vacant positions beyond the stipulated time pending competitive filling of the vacant positions. (Refer to Doc 2.1 attached)</p> <p>The appointment of the Managing Director follows competitive process as guided by the Board of Directors. The decision to dissolve the Board was for purposes of facilitating the intended leasing of public mills.</p> <p>It's important to note that even in the absence of a substantive Managing Director, The current Managing Director who is serving on an acting capacity has led the current management team and the entire staff in achieving tremendous improvement in rendement (recovery ratio) and revenue growth in the last three years. This is by ensuring that annual plant maintenance is undertaken as and when required.</p> <p>The Company, in the absence of the Board, deals directly with the parent ministry on all matters that would have otherwise required Board's approval. Through this, the Company has strived to meet her strategic objectives.</p>	

**Key projects and investment decisions the entity is planning/implementing**

Below are some of the projects and investment decisions the Company is planning/implementing as at 30.06.2023

SR/ No	ITEM DESCRIPTION	QTY	APPROVED BUDGET	REMARK
1.	Replace raw water line	1	18,750,000	Project Justified 08.05.2023
2.	New injection pump to replace pump 2	1	10,000,000	PID Approved 03.05.2023
3.	Shaft mounted gear boxes c/w drive.3 Nos for b magma reciever crystalliser, b seed crystalliser and vacuum crystalliser	3	5,000,000	PID Approved 03.05.2023
4.	Supply of new Fibrizor rotor	1	12,000,000	Project Justified 14.04.2023 PID Approved 24.04.2023
5.	Refurbishment of electrical power supply to E&F staff houses	1	8,000,000	Project Justified 08.05.2023 PID Approved 03.05.2023
6.	Filtration of Mixed Juice/mud system	1	20,000,000	Project Justified 27.04.2023 PID Approved 27.04.2023
7.	4 Nos - Single-Cab - Pickups	4	20,800,000	Project Justified 06.04.2023 PID Approved 24.04.2023
8.	Bell Loader -Roll over- Use at Ndege Oriedo	1	8,000,000	PID Approved 24.02.2023

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9.	Bell Loader -Replacing KAR 483L	1	8,000,000	PID Approved 24.02.2023
10.	Winch complete with WB - Replace KBQ 257	1	8,000,000	Project Justified 06.04.2023  PID Approved 24.04.2023
11.	Winch complete with WB - Replace KBQ 255	1	8,000,000	Project Justified 06.04.2023  PID Approved 24.04.2023
12.	Labour Lorry to enhance cutter transport- Replace Nizan UD	1	10,000,000	Project Justified 06.04.2023  PID Approved 27.04.2023
13.	Remote Disaster Recovery Centre	1	32,400,000	Project Justified 16.06.2023  PID Approved 16.06.2023
14.	Voice over IP (VOIP) telephone system	1	5,000,000	Project Justified 18.01.2023  PID Approved 22.02.2023