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on Thurs 28/8/14*

KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
SOUTH NYANZA SUGAR COMPANY
LIMITED

FOR THE YEAR ENDED
30 JUNE 2013





SONYSUGAR
Simply The Sweetest

SOUTH NYANZA SUGAR COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

KENYA NATIONAL AUDIT OFFICE
P. O. Box 30084 - 00100, NAIROBI.
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CORPORATE INFORMATION

DIRECTORS

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

Charles O Ogalo	Chairman
Paul O Odola, MBS	Managing Director-Retired on 31 July 2013
Jane P Odhiambo	Acting Managing Director-Appointed 1 August 2013
Beatrice King'ori	Alternate - Permanent Secretary, Ministry of Agriculture
Kennedy Ondieki	Alternate - Permanent Secretary, Ministry of Finance
Violet S Onyango	Appointed on 13 July 2012
Janet Ongera	Retired on 30 September 2012
Orpah A Ogutu	
Christopher Chacha	
Joseph L. Ole Kasae	

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

SENIOR MANAGEMENT

John L Imbogo	Head of Finance-Retired 14 Oct. 2013
Peter O. Otieno	Head of Finance(AG)- Appointed 10 Dec. 2013
Eunice Kitchi-Oduor	Company Secretary
Benard A Otieno	Head of Manufacturing
Jonathan Biwot	Head of Marketing & Business Dev.- Appointed 1 Aug. 2013
Patrick MakOnyango	Head of Agriculture- Retired 1 Jul. 2013
Gabriel O. Nyangweso	Head of Agriculture – Appointed 1 Aug. 2013
Janet O Odingo	Head of Human Resources
Charles Mapesa	Head of Information and Communication Technology
Peter Odhiambo	Head of Procurement

REGISTERED OFFICE

PO Box 107 - 40405
Sare-Awendo

BANKERS

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

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

Barclays Bank of Kenya Ltd
P. O. Box 99 - 40200
KISII

CORPORATE INFORMATION (CONTINUED)

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
PwC Tower, Waiyaki Way/ Chiromo Road
Westlands
P.O. Box 43963 – 00100 GPO
Nairobi

On behalf of:-
Kenya National Audit Office
Anniversary Towers
P.O. Box 30084 – 00100 GPO
Nairobi

COMPANY LAWYERS

Okongo, Wandago & Co Advocates
SUNA MIGORI

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

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

CHAIRMAN'S REPORT

On behalf of the Board, I have the pleasure of presenting the Annual Report and Financial Statements for the year ended 30 June 2013. The past year has been one of the most challenging one for the company in the last five years occasioned by both internal and external factors.

The Economy

The year 2013 saw the Kenyan economy recover from the major macro-economic challenges which included the runaway inflation rates, volatile exchange rates and high interest rates that negatively affected the economy in the previous year. The inflation declined to average at 6.0% down from 14% in the previous year while the Gross domestic Product (GDP) grew from 4.3% to 4.6%. The Central Bank's decision to increase the interest rates together with the government's fiscal prudence contributed to restore economic stability. With the Country having carried out peaceful national elections together with stabilizing macro-economic fundamentals the economy is expected to be stable in the coming year.

The Sugar industry

The Kenya's sugar industry remained challenging mainly due unfavourable trading environment. There was massive unregulated importation of cheap sugar in the country coupled with Cane poaching which continued to pose a great threat to the sustainability of operations in the industry. Consequently the overall performance of the sugar industry remained weak throughout the year.

Results

The financial results for the year ended 30 June 2013 were below last year's performance. The Company posted an operating loss of Shs 350 million (2011/2012 – profit Shs 998 million) and a pre-tax loss of Shs 396 million (2011/2012 – profit Shs 1,024 million), which is 135% lower than last year. Gross turnover of Shs 5.0 billion was realized as compared to Shs 7.0 billion achieved in the previous year attributable to the challenges in the sugar industry mainly as a result of increased incidences of counterfeits and uncontrolled sugar imports.

Contribution to Government Revenue

SonySugar continues to honour its statutory obligations. The Company's contribution to the Exchequer in taxes from value added tax (VAT), Sugar Development Levy (SDL), corporation tax and others was Shs 1,184 million (2012- Shs 1,261 million)

The Company however, still holds the view that high taxes and levies on sugar have continued to impede growth and expansion of the industry. We appeal for a policy intervention in this area.

Our Farmers

The Board is well aware that one of the key stakeholders in our business are our farmers. The Company is committed to the statutory requirement of paying cane farmers within thirty days of cane supply. During the year under review, Shs 1.6 billion (2012: Shs 2.6 billion) was paid to cane farmers and other related service providers including land development, contractors, weeders, cane cutters and transporters.

The company continues to train both farmers and field staff with a view of enhancing agronomic practices so as to help cane farmers adopt a business mindset. Our long term objective is to forge a partnership with farmers so as to secure the much needed raw material.

Corporate Social Responsibility

The company maintained stakeholder communication by utilizing various channels such as, intranet, posters, briefings and the corporate website to create awareness and disseminate information on corporate direction, achievements and challenges. The Company also participated in various community development activities namely:

- **The environment:** During the year under review over 10,000 tree seedlings were planted through the joint effort of our employees and farmers as a step towards upholding high standards of environmental conservation and management.
- **Infrastructure Development:** Poor road network continues to impede cane transport to the factory and in turn makes transportation costly. In partnership with Kenya Sugar Board, the Company invested over Shs. 67 million in infrastructure development involving rehabilitation/construction of over 100 km of roads and bridges, assisting in improving access to farms, reducing zonal distances and opening more areas for cane farming both in the Nucleus Estate and Outgrower zones.
- **Health and Safety:** The Company is committed to ensuring the employees work in a safe environment by minimizing any risks that the operations may pose to the staff. Greater awareness on employees' health and safety was raised with the participation of our staff in workshops on HIV/AIDS and health education programmes. Free anti-retroviral drugs were supplied to affected employees and the community.

The Board

The SonySugar Board of Directors are committed to ensuring the Company's prosperity by collectively directing its affairs whilst meeting the diverse interests of shareholders and stakeholders. The company has a Board Charter that guides the operation of the Board as well as defining the roles and responsibilities of the Directors and Management. The Board strives to observe the highest standards of corporate governance and corporate ethics in providing overall policy and strategic direction of the Company. Through the Board's diversity and broad based guidance, the Company has been able to make consistent improvement in its operations.

During the year, the Board lost the insightful contributions of Ms. Janet Ong'era who retired to pursue other interests. Mrs. Violet Sally Onyango joined the Board during the year. She has brought in a wealth of experience from the private sector.

The Future

One of the key drivers of the country's economic recovery remains agriculture, which accounts for a larger part on the contribution of the Gross Domestic Product (GDP). The sugar sub sector plays a pivotal role in this industry. In an effort to restructure the sugar industry, government has initiated a privatization process for all state owned millers. This is aimed at making the millers more competitive and thus strategically positioning them in readiness for the regional liberalization of the COMESA member states economies. Privatisation Commission has appointed a consultant to update the due diligence that was carried out in 2009. The Board will continue to grow the business as it awaits guidance and direction from both the parent ministry and the Privatization Commission.

The company is in its last year of strategic plan 2009/14 and formulation of a new one is in progress. The Board is optimistic of an improvement in company's performance in the coming year 2013/14.

Appreciation

On behalf of the Board, I wish to thank all our shareholders and stakeholders for your continued support. The Board will always endeavour to guide the company on the best strategies for business growth. The year ahead is challenging but I believe that with the commitment demonstrated by all stakeholders we shall be able to overcome the challenges and return better results.

Thank you.



Charles O Ogalo
Chairman
...6 JUNE.....2014

MANAGING DIRECTOR'S REPORT

The year ended 30 June 2013 was a more challenging one for SonySugar. The Company faced numerous challenges. Increased theft of contracted outgrower cane negatively affected milling cane supply, while uncontrolled sugar imports and counterfeits lowered the market price for sugar.

Additionally the challenging business environment occasioned by the general elections, the extended closure of the factory for Annual Planned Maintenance (APM) and the prolonged wet weather conditions further affected operations. Consequently, the company recorded a decline in its key performance indicators during the year. Revenue declined by 29% to Shs 5.0 billion (2012 Shs 7.0 billion) mainly as a result of lower production volumes and lower selling prices. As a result the Company posted a pre-tax loss of Shs 396 million (2012: profit Shs 1,024 million)

Agriculture

A total of 539,342 tons of cane was harvested during the year compared to 640,464 tons the previous financial year representing a decline of 16%. This was occasioned by reduced cane transport fleet, low turnout of contracted workers and transporters in the electioneering month of March 2013, and extreme wet conditions in the second half of the year which substantially damaged the road network. These factors reduced total cane delivery to the factory. To improve cane delivery, a strategic decision to invest in cane fleet was made.

The general farming environment characterized by increased cane poaching by rival millers had a negative effect on cane age as underage cane was harvested. Consequently, outgrower cane yields dropped from 73.86 tons/ha in 2011/12 to 69.19 tons/ha in 2012/13.

The Company employed some interventions, however, the loss of cane exposed the organization to financial losses due to non-recoverability of cane investments. On a positive note, cane fires were generally low on both the Nucleus Estate and Outgrower farms compared to the previous year.

The total cane area as at 30 June 2013 was 18,359 hectares, 2,241 hectares in the Nucleus estate and 16,119 hectares in Outgrowers. There was an increase of 9% compared to the same period last year of 16,898 hectares. The increase was attributed to:

- A vigorous cane development program.
- Positive uptake of cane farming resulting from the favorable cane price and timely payments to farmers.
- Farmers' sensitization and education on best cane husbandry and management practices.
- Adoption of early maturing varieties.

However, further development of cane must continue to be able to meet the envisaged factory optimized capacity of 3,000 TCD.

Farmers Payment

Our farmers rank among the key stakeholders and the company is committed to passing on the benefits from favourable sugar prices to them through offering competitive cane prices. Apart from paying farmers Shs 1.6 billion the company invested Shs 377 million (2012: Shs 350 million) in cane development. Management continues to adhere to the requirements of Sugar Act 2001 on Cane payment.

Factory Performance

During the year, 49,845 tons of sugar was produced against last year's 64,582 tons. A rendement of 9.17% was achieved compared to last year's 10.13%. This decline was mainly due to reduced production efficiencies and poor cane quality.

The Company undertook a major APM from mid-October to early December to facilitate major capital works planned around boilers and cane milling plant.

During the year, factory operations were constrained by bagasse shortages occasioned by heavy rains, extended APM and start up challenges, declining milling cane quality and reduced milling efficiencies arising from broken down mills and gears.

The plant performance improved in the second half after the APM during which major investments were made in the following: Installation of two new mills complete with gearbox drives, replacement of main bank tubes of the two steam generation boilers, installation of a new calandria (heat exchange tube bank) for the juice evaporation plant, overhaul of the main power generation turbo alternator, rehabilitation of the cooling water system, and upgrade and modernization of electrical supply among other projects.

The plant registered improved efficiencies and productivity at the close of the year indicating better prospects for the new financial year.

Operational Costs

The unit cost of production was higher than in previous year as a result of lower production volumes. Total operating costs declined to Shs 4.5 billion from Shs 4.8 billion in the previous year, while cost of production increased to Shs 90,817 (2012:Shs. 74,815) per ton of sugar as compared to the previous financial year. The high cost of cane from outgrower scheme coupled with higher manufacturing costs formed the principal contributors to the overall cost of production.

The Market

A total of 49,520 tons of sugar was sold during the period under review. This was 78% of the previous year's 63,514 tons. Gross turnover stood at Kshs 5.0 billion (2012 - Kshs 7.0 billion), 29% below same period last year. The decrease was mainly attributed to lower production volumes, and the unfavourable market due to uncontrolled sugar imports and counterfeits. As in the previous year, the molasses market was however stable.

The un-controlled cross border sugar trade in the East Africa region especially Tanzania and the competition from new millers in the South Nyanza sugar belt affected general sales performance. The key drivers of marketing success were to strengthen the brand through effective communication and customer relationship building. The Company held forums with customers to share and exchange ideas. Field sales visits were enhanced in a bid to increase market coverage and strengthen customer loyalty. These initiatives contributed to growth in the ratio of branded to bulk sugar sales to 35% from 30% in the previous year. The brand also maintained its Superbrands status as confirmed by the Superbrands East Africa survey conducted in April – June 2012. This confirmation allows SonySugar brand to use the coveted Superbrands seal which in the 2012/2013 wave carries a banner saying **“voted one of EA’s strongest brand by experts and consumers”**

Management Systems

The Company strives to maintain and improve its ISO 9001:2008 Quality Management System (QMS), ISO 14001:2004 Environmental Management System (EMS) through rigorous implementation of the requirements, management reviews, and internal and external surveillance audits. Successful recertification surveillance audit by the Kenya Bureau of Standards was done after four years of compliance. Through QMS, significant improvements in product and service quality, efficiencies, customer and employee satisfaction, and company reputation have been realized. In addition, the EMS has enabled management of complex liability issues, provided assurance to stakeholders, reduced costs associated with waste and promoted a positive company image.

The Company has maintained and improved the standardization and diamond mark of quality requirements to ensure customer satisfaction and compliance to legal requirements. To achieve accreditation of the company laboratories, implementation and certification of Laboratory Management System (ISO 17025:2005) is in progress.

Information Communication and Technology

The use of Information Communication Technology (ICT) continues to play a vital role in business operations. The company is currently on course in implementing an Enterprise Resource Planning System (ERP) and Agriculture Management System (AMS). It is expected that the implementation will lead to integration of all business processes.

The use of information technology has seen increased expansion of the network to cover all the core functional areas and align their services with new technologies and benchmarked standards.

Human Resource

Staff strength as at June 30, 2013 stood at 1,198 permanent employees and 979 contract employees as compared to 30 June 2012 which stood at 1,217 permanent employees and 881 contract employees. A work plan for the implementation of job evaluation was drawn and implementation is to be undertaken in phases. A companywide skills audit was conducted for effective implementation of the job evaluation recommendations.

In order to address the new changes in government legislation as contained in the New Labour Laws and the Constitution, the Company reviewed the current Staff administrative code. The Company also undertook an employee satisfaction exit interview which gauged the employee satisfaction index at 71.9%.

We recognize the importance of harmonious industrial relations in realizing maximum productivity. There was constructive engagement between the union and management that ensured employee participation leading to uninterrupted company operations. The current CBA expired in May 2013 and plans are in progress for fresh negotiations. The training plan for the year under review was implemented though scaled down to control costs.

The Company attaches great importance to the health of its workers. This is done through offering curative, preventive and rehabilitative health care at the company run medical center. During the period under review, major renovations of the medical facility were undertaken to ensure improved quality of health care. These include the extension of the medical Centre and procurement of ultrasound machine among others.

The Company shall continue to adopt all strategies possible to ensure it attracts, develops and retains the human capital necessary for driving the company business.

Future Outlook and Strategy

The management is cautiously optimistic about the performance of the economy with the hope that a more favourable trading environment will prevail to sustain future progress.

The milling plant and other critical unit processes have been extensively refurbished following the long APM shutdown. The prospects for a successful milling season are clearly evident from the plant performance post the APM.

The Company is at advanced stage in rolling out the new AMS and ERP Systems in the year 2013/2014. The Company expects to reap benefits from the system in terms of timely processing of farmers payments, efficient and effective communication, faster data processing and efficient reporting leading to cost savings across the business.

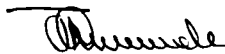
The Company shall continue to invest in cane transport fleet, recruit more transporters and contract more Cane farmers to boost cane availability. New cane varieties introduced by the Kenya Sugar Research Foundation (KESREF) which are early maturing and of high yields are being rolled out to farmers.

Management is in the process of formulating a new Strategic Plan beginning the financial year 2014/15. Performance review in relation to the current plan shall inform the strategic direction.

Conclusion

On behalf of the Management team of SonySugar, I wish to thank the Board for its prudent guidance and direction. I wish to also express my appreciation to the entire staff for their dedication and hard work, our loyal farmers for their support, our customers and consumers for making SonySugar their brand of choice and all other stakeholders for their support.

Thank you.



Jane P. Odhiambo
Acting Managing Director

6 JUNE
.....2014

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 30 June 2013, which discloses the state of affairs of the Company.

Principal Activities

The company grows, manufactures and sells sugar.

Results and Dividends

The net loss for the year of Shs 352,708,000 (2012: profit of Shs 653,555,000) has been reduced from retained earnings. The directors do not recommend the payment of a dividend.

Productions and Sales

The following are the comparative statistics of cane deliveries and sugar production for the year ended 30 June 2013.

Cane Deliveries (tons)	2013	2012
Nucleus estate	90,710	95,097
Outgrowers	452,882	542,450
	<hr/>	<hr/>
Total	543,592	637,547
	<hr/>	<hr/>
Sugar Produced (tons)	49,845	64,582
	<hr/>	<hr/>
Rendement	9.17%	10.13%
	<hr/>	<hr/>

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.

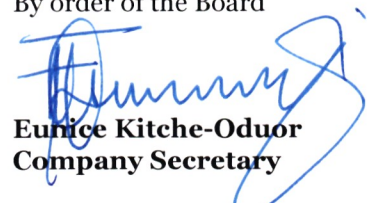
Auditors

The company is audited by the Auditor General in accordance with Section 12 of Public Audit Act 2003 and State Corporation Act.

Approval of Financial Statements

The financial statements were approved by the Board of Directors on 6 JUNE 2014.

By order of the Board


Eunice Kitche-Oduor
Company Secretary

_____ 2014

STATEMENTS OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company.

The directors are also responsible for safeguarding the assets of the company. They accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

- (i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
- (ii) Selecting and applying appropriate accounting policies;
- (iii) Making accounting estimates and judgements that are reasonable in the circumstances.

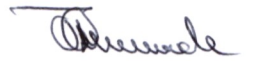
The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the company at 31 December 2013 and of the company financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Nothing has come to the attention of the Directors to indicate that the company and its subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the board of directors on 6 JUNE-----2014 and signed on its behalf by:



Charles O Ogalo
Chairman



Jane P Odhiambo
Acting Managing Director

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of South Nyanza Sugar Company Limited set out on pages 16 to 47, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under the provisions of Section 14 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of

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

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

Basis for Qualified Opinion

1. The company's statement of financial position as at 30 June 2013 and 2012 includes receivables from Outgrowers of Kshs.602,945,000 and Kshs.581,794,000 respectively. The balance arises from the company's provision of agricultural inputs and services to the Outgrowers and the related accrued interest income as shown under Note 15. During the year, management reconstructed a listing of Outgrowers' balances to support the balance in the general ledger. However, the data used to reconstruct the listing had not been validated by management to confirm the reliability, accuracy and completeness of the reconstructed balances. The validation of the individual Outgrowers' balances in the reconstructed listing during the audit revealed several discrepancies and errors indicating that the listing did not provide a reliable, accurate and complete support for the Outgrowers' balances in the general ledger as at the 30 June 2013. In the prior years, management could not provide a listing to support the Outgrowers balances in the general ledger. It was therefore, not possible to obtain sufficient reliable audit evidence to conclude on the accuracy, completeness and recoverability of receivables from Outgrowers and the related accrued interest income.
2. Administration expenses in the statement of comprehensive income include an amount of Kshs.30 million relating to losses of 530 tonnes of manufactured sugar during the year. The losses were identified during the year end stock count at some inventory holding locations. In the absence of sufficient audit evidence to explain the inventory losses, we were unable to conclude on the validity of the losses charged to the statement of comprehensive income in the year.

Qualified Opinion

In my opinion, except for the possible effect of the matters described in the Basis of Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of South Nyanza Sugar Company Limited at 30 June 2013 and of its financial performance and cash flows for the year then ended in accordance with

International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

9 July, 2014


Statement of comprehensive income

	Notes	Year ended 30 June	
		2013 Shs'000	2012 Shs'000
Gross sales		5,015,109	7,059,571
Indirect taxes:			
- Value Added Tax (VAT)		(694,988)	(945,356)
- Sugar Development Levy (SDL)		(163,245)	(227,249)
Revenue	5	4,156,876	5,886,966
Gains/(losses) arising from changes in fair value less costs to sell of biological assets	12	13,377	(96,680)
		4,170,253	5,790,286
Cost of sales		(3,491,607)	(3,893,125)
Gross profit		678,646	1,897,161
Other income	6 (a)	36,272	65,084
Distribution costs		(67,058)	(65,647)
Administrative expenses		(998,439)	(898,542)
Operating(loss)/profit		(350,579)	998,056
Finance income	6 (b)	29,553	87,474
Finance cost	7	(75,244)	(61,917)
(Loss)/profit before income tax		(396,270)	1,023,613
Income tax expense	10	43,490	(370,058)
(Loss)/profit for the year		(352,780)	653,555
Other comprehensive income, net of tax:		-	-
Total comprehensive (loss)/ income for the year		(352,780)	653,555

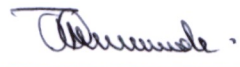
Statement of financial position

	Notes	30 June 2013 Shs'000	30 June 2012 Shs'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	4,127,940	3,671,191
Current assets			
Biological assets	12	582,241	539,056
Inventories	13	520,170	646,939
Trade and other receivables	14	168,282	135,411
Receivables from outgrowers	15	602,945	581,794
Current income tax		10,647	-
Cash and bank balances		96,985	1,077,253
		1,981,270	2,980,453
TOTAL ASSETS		6,109,210	6,651,644
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	17	353,970	353,970
Revaluation reserve	18	1,641,950	1,731,923
Retained earnings		903,814	1,166,621
Total equity		2,899,734	3,252,514
Liabilities			
Non-current liabilities			
Grants	19	80,825	59,194
Deferred income tax	20	738,514	774,381
		819,339	833,575
Current liabilities			
Trade and other payables	21	1,265,017	1,214,645
Current income tax		-	322,978
Borrowings	22	1,125,120	1,027,932
		2,390,137	2,565,555
TOTAL EQUITY AND LIABILITIES		6,109,210	6,651,644

The financial statements on pages 16 to 45 were approved for issue by the board of directors on 6 June 2014 and signed on its behalf by:



Charles O Ogalo
 Chairman



Jane P Odhiambo
 Acting Managing Director

Statement of changes in equity

	Notes	Share capital Shs'000	Revaluation reserves Shs'000	Retained earnings Shs'000	Total equity Shs'000
Year ended 30 June 2012					
At start of year		353,970	1,838,686	406,303	2,598,959
Profit for the year		-	-	653,555	653,555
Transfer of excess depreciation	18		(152,518)	152,518	-
Deferred income tax on transfer	18	-	45,755	(45,755)	-
Total comprehensive income		-	(106,763)	760,318	653,555
At end of year		353,970	1,731,923	1,166,621	3,252,514
Year ended 30 June 2013					
At start of year		353,970	1,731,923	1,166,621	3,252,514
Loss for the year		-	-	(352,780)	(352,780)
Transfer of excess depreciation	18		(128,533)	128,533	-
Deferred income tax on transfer	18	-	38,560	(38,560)	-
Total comprehensive income		-	(89,973)	(262,807)	(352,780)
At end of year		353,970	1,641,950	903,814	2,899,734

Statement of cash flows

	Notes	Year ended 30 June	
		2013 Shs'000	2012 Shs'000
Cash flows from operating activities			
Cash generated from operations	23	75,365	1,172,574
Interest received	6	68,059	144,287
Interest paid and other finance charges	7	(70,104)	(46,368)
Tax paid	10	(326,001)	(88,386)
Net cash generated from operating activities.		(252,681)	1,182,107
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(871,736)	(495,037)
Proceeds from sale of fixed assets		16,665	16,312
Net cash used in investing activities		(855,071)	(478,725)
Cash flows from financing activities			
Loan received	22	36,000	100,000
Grant received	19	30,296	15,271
Repayment of borrowings	22	(9,031)	(251,583)
Net cash from financing activities		57,265	(136,312)
Net (decrease)/increase in cash and cash equivalents		(1,050,487)	567,070
Cash and cash equivalents at start of year		906,985	339,915
Cash and cash equivalents at end of year	16	(143,502)	906,985

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 income statement, in these financial statements.

2 Summary of significant 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) Basis of preparation

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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

New standards and interpretations that are not yet effective and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, 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 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles..

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

New standards and interpretations that are not yet effective and have not been early adopted (continued)

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch. The directors are yet to assess IFRS 9's full impact and intend to adopt IFRS 9 no later than the accounting period beginning 1 June 2015.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(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 recognised 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 Summary of significant 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), Sugar Development Levy (SDL), returns, rebates and discounts and after eliminating sales within the Company. SDL does not apply to molasses sales.

The Company recognises 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 recognised as follows:

- (i) Sales of goods are recognised 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.

- (ii) Interest income is recognised using the effective interest method.

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Property, plant and equipment

Property, plant and equipment are shown at fair value, based on periodic, but at least triennial, 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 recognised 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 derecognised. 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 - 15 years
Equipment and motor vehicles	3 - 8 years

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) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Inventories

Inventories are stated at the lower of cost and net realisable 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 realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses.

(g) 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.

(h) 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(i) 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.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Notes (continued)

2 Summary of significant accounting policies (continued)

(k) Employee benefits

(i) Retirement benefit obligations

The Company operates defined contribution retirement benefit scheme for its non-unionised 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 recognised as an employee benefit expense when they are due.

(ii) Other entitlements

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

The Company recognises 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 recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.

(l) Current and deferred income tax

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

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 recognised, 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 recognised 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 or 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(l) Current and deferred income tax (continued)

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

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.

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.

(m) Borrowings

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

Fees paid on the establishment of loan facilities are recognised 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 capitalised as a pre-payment for liquidity services and amortised 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.

(n) Provisions

Provisions are recognised 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 recognised 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 recognised as interest expense.

(o) Grants

Grants are recognised 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(p) 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.

3 Critical accounting estimates and judgements

Estimates and judgements 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.

(i) 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.

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 12.

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 judgement 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.

Income taxes

Significant judgement 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 recognises 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.

Useful lives of plant and equipment

The Company's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The rates used are set out in Note 2 (d) above.

(ii) Critical judgements in applying the entity's accounting policies

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

- the classification of financial assets and leases
- whether financial and non-financial assets are impaired.

Notes (continued)

4 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 minimise 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 recognised assets and liabilities.

At 30 June 2013, 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 10,582 (2012: Shs 65,355) 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.

(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 a 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 analysing 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 utilisation of credit limits is regularly monitored.

Notes (continued)

4 Financial risk management (continued)

(iv) Credit risk (continued)

The amount that best represents the Company's maximum exposure to credit risk at 30 June 2013 is made up as follows:

	2013 Shs'000	2012 Shs'000
Cash at bank	96,985	1,077,253
Trade receivables	78,721	21,835
Receivable from out-growers	602,945	581,794
Other receivables	89,561	113,576
	<hr/>	<hr/>
	868,212	1,794,458
	<hr/>	<hr/>

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 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:

	2013 Shs'000	2012 Shs'000
Past due but not impaired:		
- by up to 30 days	41,156	11,323
- by 31 to 60 days	1,074	7,627
	<hr/>	<hr/>
Total past due but not impaired	42,230	18,950
	<hr/>	<hr/>
Total receivables:		
Carrying amount before provision for impairment loss	1,489,596	1,271,616
Provision for impairment loss	(718,369)	(554,411)
	<hr/>	<hr/>
Net carrying amount	771,227	717,205
	<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 receivables past due by more than 60 days are considered to be impaired, and are carried at their estimated recoverable value.

Notes (continued)

4 Financial risk management (continued)

(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 perform 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. At the reporting date, the Company held liquid assets of Shs 96,985,000(2012: Shs 1,077,253,000) that are expected to readily generate cash inflows for managing liquidity risk.

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
At 30 June 2013:	
Liabilities	
- borrowings	1,125,120
- trade and other payables	1,261,224
	<hr/>
Total financial liabilities (contractual maturity dates)	2,386,344
	<hr/>
At 30 June 2012:	
Liabilities	
- borrowings	1,027,932
- trade and other payables	1,214,645
	<hr/>
Total financial liabilities (contractual maturity dates)	2,242,577
	<hr/>

Notes (continued)

4 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.

	2013 Shs'000	2012 Shs'000
Total borrowings	1,125,120	1,027,932
Less: cash and cash equivalents	(96,985)	(1,077,253)
Net debt	1,028,135	(49,321)
Total equity	2,923,609	3,252,513
Total capital	3,951,744	3,203,192
Gearing ratio	26%	0%

5 Revenue

Analysis of revenue by category:

White and brown sugar	4,057,584	5,796,351
Molasses	99,292	90,615
	4,156,876	5,886,966

Notes (continued)

6 a) Other income	2013 Shs'000	2012 Shs'000
Interest on receivables from outgrowers	38,506	56,813
Loss on Disposal of fixed assets	(6,250)	-
Miscellaneous income	4,016	8,271
	<hr/>	<hr/>
	36,272	65,084
	<hr/>	<hr/>
b) Interest income on fixed deposits		
Interest income on bank deposits	29,553	87,474
	<hr/>	<hr/>
7 Finance costs		
Interest expense – KSB (SDF) and GOK loan	36,756	39,998
Interest expense – bank overdraft	33,348	6,360
Bank charges	5,140	15,559
	<hr/>	<hr/>
	75,244	61,917
	<hr/>	<hr/>
8 Expenses by nature		
Raw materials and consumables used	2,171,720	2,628,638
Employee benefits expense (Note 9)	1,319,891	1,286,998
Depreciation on property, plant and equipment (Note 11)	392,072	359,802
Audit fees	6,160	4,400
Provision for obsolete stocks	44,325	23,296
Stock shortage – finished sugar	30,314	-
Other expenses	592,621	554,180
	<hr/>	<hr/>
Total cost of sales, distribution expenses and administrative costs	4,557,103	4,857,314
	<hr/>	<hr/>
9 Employee benefits expense		
Salaries and wages	1,263,743	1,226,403
Retirement benefits costs:		
- Defined contribution scheme	53,187	57,316
- National Social Security Funds	2,961	3,279
	<hr/>	<hr/>
	1,319,891	1,286,998
	<hr/>	<hr/>

Notes (continued)

10 (a) Income tax expense

	2013 Shs'000	2012 Shs'000
Current income tax	-	371,096
Deferred income tax (Note 20)	(35,867)	(1,038)
Adjustment in respect of prior year	(7,623)	-
	<hr/>	<hr/>
Income tax expense	(43,490)	370,058
	<hr/>	<hr/>

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:

	2013 Shs'000	2012 Shs'000
Loss/Profit before income tax	(396,270)	1,023,613
	<hr/>	<hr/>
Tax calculated at the statutory income tax rate of 30% (2012 – 30%)	(118,881)	307,084
Tax effect of:		
Expenses not deductible for tax purposes	18,873	49,275
Under provision of deferred income tax in prior year	55,438	13,699
Underprovision of current tax in prior year	1,080	-
	<hr/>	<hr/>
Income tax expense	(43,490)	370,058
	<hr/>	<hr/>

Notes (continued)

11 Property, plant and equipment

	Leasehold Land	Building	Plant and machinery	Trailers, tractors and motor vehicles	Office and other equipment	Roads and fencing	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs' 000	Shs'000
At 1 July 2011								
Cost or valuation	677,675	1,075,982	3,308,258	1,294,623	227,975	100,958	139,402	6,824,873
Accumulated depreciation	(47,279)	(414,124)	(1,811,888)	(780,765)	(140,692)	(70,012)	-	(3,264,760)
Net book amount	630,396	661,858	1,496,370	513,858	87,283	30,946	139,402	3,560,113
Year ended 30 June 2012								
Opening net book amount	630,396	661,858	1,496,370	513,858	87,283	30,946	139,402	3,560,113
Additions	-	5,539	107,104	285,074	18,329	806	78,185	495,037
Transfers	-	-	14,620	-	-	-	(14,620)	-
Disposals (net)	-	-	-	(24,158)	-	-	-	(24,158)
Depreciation charge	(6,414)	(24,681)	(208,657)	(108,369)	(9,101)	(2,580)	-	(359,802)
Closing net book amount	623,982	642,716	1,409,437	666,405	96,511	29,172	202,967	3,671,190
At 30 June 2012								
Cost or valuation	677,675	1,081,520	3,429,982	1,465,544	211,474	101,765	202,967	7,170,927
Accumulated depreciation	(53,693)	(438,804)	(2,020,545)	(799,139)	(114,963)	(72,592)	-	(3,499,736)
Net book amount	623,982	642,716	1,409,437	666,405	96,511	29,173	202,967	3,671,191
Year ended 30 June 2012								

Notes (continued)

11 Property, plant and equipment (continued)

	Leasehold Land	Building	Plant and machinery	Trailer, tractors and motor vehicles	Office and Other Equipment	Roads and fencing	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2013								
Opening net book amount	623,982	642,716	1,409,437	666,405	96,511	29,173	202,967	3671,191
Additions	-	3	380,559	110,201	95,852	4,777	280,344	871736
Transfers	-	16,915	47,924	-	-	60,808	(125,647)	-
Disposals (net)	-	-	-	(22,915)	-	-	-	(22,915)
Depreciation charge	(6,414)	(25,777)	(201,850)	(143,734)	(11,684)	(2,613)	-	(392,072)
Closing net book amount	617,568	633,857	1,636,070	609,957	180,679	92,145	357,664	4,127,940
At 30 June 2013								
Cost or valuation	677,675	1,098,439	3,858,465	1,485,589	307,326	167,348	357,664	7,952,506
Accumulated depreciation	(60,107)	(464,582)	(2,222,395)	(875,632)	(126,647)	(75,203)	-	(3,824,566)
Net book amount	617,568	633,857	1,636,070	609,957	180,679	92,145	357,664	4,127,940

Notes (continued)

11 Property, plant and equipment (continued)

The company's property, plant and equipment were revalued on 31 December 2010, by Lloyd Masika 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:

	2013 Shs'000	2012 Shs'000
Cost	3,759,228	3,335,707
Accumulated depreciation	(2,408,454)	(2,144,916)
	<hr/>	<hr/>
Net book amount	1,350,774	1,190,791
	<hr/>	<hr/>

Bank borrowings are secured on properties to the value of Shs 2,891,497,000 (2012: Shs 2,891,497,000) (Note 22).

12 Biological assets

	Cane Shs'000	Dairy animals Shs'000	Total Shs'000
Year ended 30 June 2012			
At start of year	590,260	1,960	592,220
Additions at cost	149,132	-	149,132
Decrease due to harvest	(105,616)	-	(105,616)
Losses arising from changes in fair value less	(96,750)	70	(96,680)
	<hr/>	<hr/>	<hr/>
At end of year	537,026	2,030	539,056
	<hr/>	<hr/>	<hr/>

Notes (continued)

12 Biological assets (continued)

Year ended 30 June 2013	Cane Shs'000	Dairy animals Shs'000	Total Shs'000
At start of year	537,026	2,030	539,056
Additions at cost	162,428	-	162,428
Decrease due to harvest	(132,620)	-	(132,620)
Gains arising from changes in fair value less costs to sell of biological assets	13,286	91	13,377
At end of year	<u>580,120</u>	<u>2,121</u>	<u>582,241</u>

The key assumptions made concerning the future are as follows:

- The valuation is based on a market price of Shs 99,740 per tonne of sugar (2012: Shs 96,936).
- Estimated average Cane yield 69.88tch (2012:69.86tch)
- Estimated average tonnage 104,405 tonnes (2012:90,322tonnes)
- Cane at the age of six months and below has no reliably determinable market value and has been stated at cost. Mature cane has been stated at fair value less point of sale costs.
- The estimated sucrose content per tonne of mature cane (pol value) at various stages of growth will remain constant at between 9.5% and 10.5% depending on the age of the cane across the sugar belt.

The Company had 45 herds of dairy cattle at 30 June 2013 (2012: 34 herds).

13 Inventories

	2013 Shs'000	2012 Shs'000
Factory Spares	131,416	196,976
Agriculture Spares	109,924	125,546
General Consumables	103,202	107,979
Fertilizer and Chemicals	42,694	41,573
Others stock items(fuel, tyres & tubes, drugs & medicines)	48,941	65,224
	436,177	537,298
Finished goods	30,688	43,446
Sugar in process	25,460	15,947
Goods in transit	27,845	50,248
	<u>520,170</u>	<u>646,939</u>

Factory & Agriculture spare parts are carried net of provision for obsolete inventories of Shs 216,053,000 (2012: Shs 123,728,000)

Notes (continued)

14 Trade and other receivables

	2013 Shs'000	2012 Shs'000
Trade receivables	115,964	59,078
Less: provision for impairment losses	(37,243)	(37,243)
Net trade receivables	<u>78,721</u>	<u>21,835</u>
Other receivables and prepayments	175,955	187,374
Less: provision for impairment losses	(86,394)	(73,798)
Net other receivables	<u>89,561</u>	<u>113,576</u>
	<u>168,282</u>	<u>135,411</u>

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

	2013 Shs'000	2012 Shs'000
At start of year	111,041	82,714
Provision in the year	12,596	28,327
At end of year	<u>123,637</u>	<u>111,041</u>

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.

15 Receivables from outgrowers	2013 Shs'000	2012 Shs'000	2011 (Restated) Shs'000
Billable inputs and services	941,426	756,048	515,651
Unbilled services	69,071	72,762	83,575
Accrued interest	187,180	196,354	147,114
Gross receivables from outgrowers	<u>1,197,677</u>	<u>1,025,164</u>	<u>746,340</u>
Less: provision for impairment losses	(594,732)	(443,370)	(404,761)
	<u>602,945</u>	<u>581,794</u>	<u>341,579</u>

Notes (continued)

15 Receivables from outgrowers (continued)

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

	2013 Shs'000	2012 Shs'000	2011 Shs'000
At start of year	443,370	404,761	382,677
Provision in the year	151,362	38,609	22,084
	<hr/>	<hr/>	<hr/>
At end of year	594,732	443,370	404,761
	<hr/>	<hr/>	<hr/>

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

16 Cash and cash equivalents

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

	2013 Shs'000	2012 Shs'000
Cash and bank balances	96,985	1,077,253
Bank overdrafts (Note 22)	(240,487)	(170,268)
	<hr/>	<hr/>
	(143,502)	906,985
	<hr/>	<hr/>

Notes (continued)

17 Share capital	Number of shares (Thousands)	Ordinary shares Shs'000
Balance at 1 July 2011, 1 July 2012 and 30 June 2013	17,698	353,970

The total authorised 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:

	2013 Shs'000	2012 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
	353,970	353,970

18 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 2012	Shs'000
At start of year	1,838,686
Transfer of excess depreciation	(152,518)
Deferred income tax on transfer of excess depreciation	45,755
	1,731,923
Year ended 30 June 2013	
At start of year	1,731,923
Transfer of excess depreciation	(128,533)
Deferred income tax on transfer of excess depreciation	38,560
	1,641,950

Notes (continued)

19 Grants

The balances represent grants from Kenya Sugar Board for purchase of machinery for road maintenance and construction of bridges. They are amortised over the life of the machinery. The movement in the year is as follows:

	2013 Shs'000	2012 Shs'000
At start of year	59,194	50,323
Additional grants received	30,296	15,271
Amortisation charge	(8,665)	(6,400)
	<hr/>	<hr/>
At end of year	80,825	59,194
	<hr/>	<hr/>

20 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2012: 30%). The gross movement on the deferred income tax account is as follows:

	2013 Shs'000	2012 Shs'000
At start of year	774,381	775,419
(Credit)/ Charge to income statement (Note 10)	(35,867)	(1,038)
	<hr/>	<hr/>
At end of year	738,514	774,381
	<hr/>	<hr/>

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

Notes (Continued)

20 Deferred income tax (continued)

Year ended 30 June 2013	1 July 2012	Charged/ (credited) to P/L	Charged to equity	30 June 2013
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	113,362	58,906	-	172,268
- on revaluation surplus	682,640	-	(38,560)	644,080
Biological assets	161,089	13,565	-	174,654
	957,091	72,471	(38,560)	991,002
Deferred income tax assets				
Other temporary differences	(182,710)	(69,778)	-	(252,488)
Net deferred income tax liability	774,381	2,693	(38,560)	738,514
<hr/>				
Year ended 30 June 2012	1 July 2011	Charged/ (credited) to P/L	Charged to equity	30 June 2012
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	82,321	31,041	-	113,362
- on revaluation surplus	728,395	-	(45,755)	682,640
Biological assets	177,059	(15,970)	-	161,089
	987,775	15,071	(45,755)	957,091
Deferred income tax assets				
Other temporary differences	(212,356)	29,646	-	(182,710)
Net deferred income tax liability	775,419	44,717	(45,755)	774,381

Notes (Continued)

21 Trade and other payables

	2013 Shs'000	2012 Shs'000
Trade payables	414,358	366,114
Customer payments in advance	66,427	19,166
Other payables and accrued expenses	784,232	829,365
	<hr/>	<hr/>
	1,265,017	1,214,645
	<hr/>	<hr/>

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

22 Borrowings

	2013 Shs'000	2012 Shs'000
KSB (SDF) loan	240,983	233,418
Government of Kenya (GOK)	643,650	624,246
Bank overdraft	240,487	170,268
	<hr/>	<hr/>
	1,125,120	1,027,932
	<hr/>	<hr/>

- KSB (SDF) loans of Shs 189,983,000 had fallen due for payment at 30 June 2013. Interest payable on the loans is 5% p.a.
- KSB (SDF) of Shs 51,000,000 had fallen due for payment at 30 June 2013. Interest payable @ 0% p.a
- GOK loans of Shs 186,479,000 had fallen due for payment at 30 June 2013. Interest payable @ 11% p.a.
- GOK/ODA of Shs 457,171,000 had fallen due for payment at 30 June 2013. Interest payable @ 12% p.a.

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

The total loan due to KSB (SDF) includes Shs 36 million received during the year for financing factory rehabilitation.

Notes (Continued)

23 Cash generated from operations	2013	2012
	Shs'000	Shs'000
Reconciliation of profit before income tax to cash generated from operations		
(Loss)/ profit before income tax	(396,270)	1,023,613
Adjustments for:		
Interest income(Note 6)	(68,059)	(144,287)
Interest expense(Note 6)	70,104	46,368
Loss on disposals of property plant & equipment	6,249	7,846
Changes in biological assets(Note 12)	(43,185)	53,164
Depreciation (Note 11)	392,072	359,802
Grant amortization (Note 19)	(8,665)	(6,400)
Changes in working capital:		
- Inventories	126,769	(117,651)
- Trade and other debtors	(32,871)	1,144
- Outgrowers	(21,151)	(240,215)
- Trade and other payables	50,372	189,190
	<hr/>	<hr/>
Cash generated from operations	75,365	1,172,574
	<hr/>	<hr/>

24 Related party transactions

The Company is controlled by the Government of Kenya. 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.

i) Key management compensation

Key management includes directors (executive and non-executive) and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2013	2012
	Shs'000	Shs'000
Salaries and other short-term employment benefits	32,560	31,058
	<hr/>	<hr/>
ii) Directors' remuneration		
Fees for services as director	5,500	279
Other emoluments included in employee benefits (note 9)	15,122	14,736
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Total remuneration of directors of the Company	20,622	15,015
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Notes (Continued)

25 Contingent liabilities

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. The company also has some open tax items under discussion with the revenue authority. The directors do not believe that any significant additional liability will arise from the resolution of these matters.

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

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

	2013 Shs'000	2012 Shs'000
Farmers' cases	152,000	160,500
Staff cases	400	500
	<hr/>	<hr/>
	152,400	161,000
	<hr/>	<hr/>

The directors have made a provision in the financial statements based on legal advice where necessary.

26 Commitments

Capital commitments

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

	2013 Shs'000	2012 Shs'000
Authorized but not contracted	324,225	229,800
Authorized and contracted	1,062,965	764,600
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	1,387,190	994,400
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Five year financial performance summary

	30-Jun-13	30-Jun-12	30-Jun-11 (Restated)	30-Jun-10 (Restated)	30-Jun-09
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Statement of comprehensive income					
Revenue	4,156,876	5,886,966	4,953,848	3,498,342	3,023,112
Operating profit	(350,579)	998,056	635,107	269,088	81,673
Profit/(loss) before income tax	(396,270)	1,023,613	563,095	204,924	23,860

Statement of financial position

Total assets	6,109,210	6,651,644	5,499,671	3,674,015	3,691,846
Total liabilities	3,209,476	3,399,131	2,900,712	2,603,583	2,530,144
Total equity	2,899,734	3,252,513	2,598,959	1,070,432	1,161,702
Net working capital	(408,867)	414,897	(135,412)	(777,137)	(600,036)

Five year operational performance summary

	30-Jun-13	30-Jun-12	30-Jun-11	30-Jun-10	30-Jun-09
Milled cane (tonnes)	541,959	637,547	725,727	558,054	586,051
Sugar sold (tonnes)	49,520	63,514	73,882	51,189	62,250
Yield (%)	9.17	10.13	10.23	9.08	9.68

