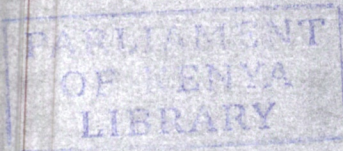


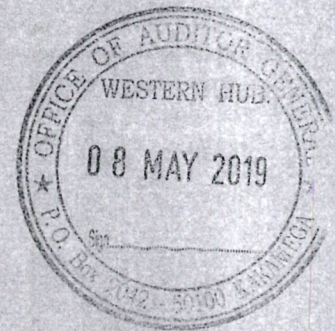
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT



OF

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 25 JUN 2019	DAY: TUESDAY
TABLED BY:	MAJORITY LEADER
CLERK-AT-THE-TABLE:	

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR
ENDED 30 JUNE 2018**



Sweetening Kenya
since 1978

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



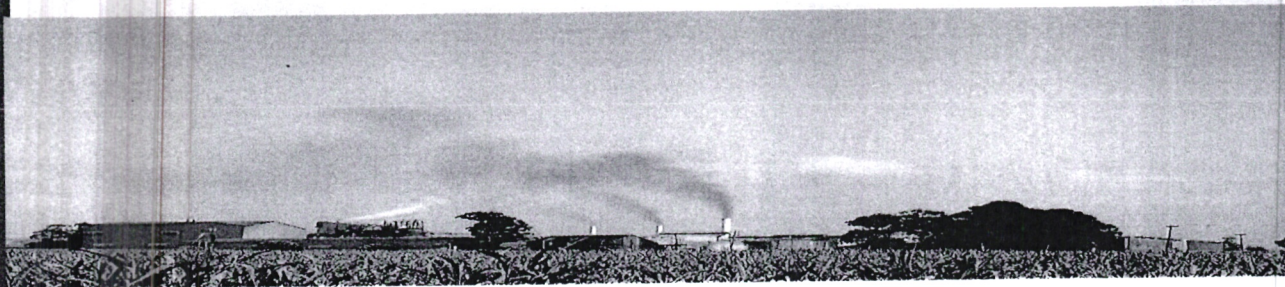
nzoiia sugar
Company Ltd

TEL:- 055 - 30500

Fax :- 055 - 30001

E-mail: md@nzoiiasugar.com

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2018



Sweetening Kenya Since 1978

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

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Nzoia Sugar Company Limited
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KEY SERVICE INFORMATION AND MANAGEMENT

WHO WE ARE

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

OUR VISION

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

OUR MISSION

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

OUR MANDATE

The Company's core mandate includes the following;

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

CORE VALUES

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

Nzoia Sugar Company Limited
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KEY SERVICE INFORMATION AND MANAGEMENT..... continued

- **Corporate Social Responsibility-** The Company will be a responsible corporate entity that addresses relevant needs of the community in which it operates.

Principal Activities

- The principal activities of the company are the production and sale of sugar and its co-products.
- To facilitate establishment and maintenance of sugarcane plantations in both the nucleus estate and Out growers scheme.

Key Management

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

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

Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had a direct fiduciary responsibility were:

NO	DESIGNATION	NAME
1	Ag.Chief Executive Officer - (Former)	Mr. Michael Kulundu Okumba
2	Company Secretary	Mr. Benson Wafula Khwatenge
3	Factory Manager	Mr. David Salim Mulungwa
4	Production Manager	Mr. Gabriel Siruchu Situma
5	Internal Audit Manager	Mr. Lucas Alwala Otene
6	Agriculture Services Manager – (Current Ag. Chief Executive Officer)	Mr. Ignatius Biketi Wafula
7	Finance Manager	Mr. Ezron Kibet Kotut
8	Diversification Manager	Mr. Macklins Wasike Sikuku
9	Marketing & Sales Manager	Ms. Edwina Akinyi Omollo
10	Environmental, Health and Safety manager	Mr. David Barasa Egesa
11	Ag. Human Resource Manager	Mr. Shadrack Nyongesa Masinde
12	Ag.ICT Manager	Mr. Suleiman Stephen Wanekeya
13	Ag. Purchasing Manager	Mr. Evans Biraori Oteki
14	Ag. Agriculture Manager	Mr. Jeremiah J Khamala
15	Public Relations Manager	Mr. Awino Adoyo Gilbert

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CORPORATE INFORMATION

DIRECTORS

Hon.Joash Wamangoli	- Chairman –Appointed on 17 th April 2015 -Left on 16 th April 2018
Michael Kulundu	- Ag. Managing Director-Appointed on 23 rd Jan 2017
Timothy Tiampati	- IDB Capital-Appointed by virtue of office
Richard Njomba	- FCB –Appointed by virtue of office
Cabinet Secretary	- Treasury- Appointed by virtue of office
Principal Secretary	- Agriculture -Appointed by virtue of office
Kennedy Simiyu Juma	- Appointed on 17 th April 2015 - Left on 16 th April 2018
Rebecca Mulongo	- Appointed on 17 th April 2015 - Left on 16 th April 2018
Mary Nawire Waiswa	- Appointed on 17 th April 2015 - Left on 16 th April 2018

COMPANY SECRETARY

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

REGISTERED OFFICE

Nzoia Sugar Company Limited
 Off Webuye – Malaba Road
 5 kms from Bukembe Junction
 P O Box 285-50200
 Bungoma, Kenya

CONTACTS

Telephone - 055-30500, 020 35557862-5
 Email:md@nzoiasugar.com
 Website: www.nzoiasugar.com

PRINCIPAL AUDITORS

The Auditor General
 P O Box 30084 - 00100
 Nairobi

ANKERS

National Bank of Kenya Limited Bungoma Branch P O Box 25 – 50200 Bungoma	The Co-operative Bank of Kenya Limited Bungoma Branch P O Box 1964 – 50200 Bungoma
Kenya Commercial Bank Limited Bungoma Branch P O Box 380 – 50200 Bungoma	

OCATES

Olotch & Company Advocates P O Box 7146 – 00100 Nairobi	Buluma & Company Advocates P O Box 6152 – 30100 Eldoret
Wekesa & Simiyu Advocates P O Box 10299 – 00100 Nairobi	

Nzoia Sugar Company Limited
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THE BOARD OF DIRECTORS

1. Hon. Joash Wamang'oli-Chairman 	DOB – 04/08/1950 ID NO. 4818638 Diploma Hon.Wamang'oli is a seasoned businessman with over 30 years experience in leadership and management.
2. Mr. Michael Kulundu 	DOB – 20/10/1967 ID NO. 9918991 Mr. Michael Kulundu Okumba is currently the Ag. Managing Director. He holds a Bachelor degree in production Technology. He is a registered member of engineering board. He has over 26 years experience
3. Mr. Timothy Tiampati 	DOB – 26/01/1956 ID NO. 0568190 Mr.Timoty Tiampati has Masters with over 30 years experience in management.
4. Mr. Kennedy Simiyu Juma 	DOB – 4/4/1983 ID NO. 23079257 Mr.Kennedy Simiyu Juma has a Bachelor of Education Arts (Kiswahili/History) from Kampala University. He is passionate about youth empowerment.

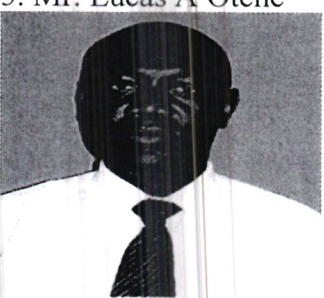
Nzoia Sugar Company Limited
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THE BOARD OF DIRECTORS.... Continued

5. Ms. Rebecca Mulongo 	DOB – 29/12/1984 ID NO. 24469241 Masters Ms.Rebecca Mulongo has a masters in Counseling Psychology from Daystar University and a professional counselor with over 5years experience.
6. Mrs. Mary Nawire Waiswa 	DOB – 25/06/1966 ID NO. 9258928 Masters Mrs.Mary Nawire Waiswa has a Masters of Science (Msc.) Foods, Nutrition and Dietetics from Kenyatta University. She has over 20 years experience in teaching, research and development of Nutrition and health.
7. Mr. Richard Njoba 	DOB – 01/01/1957 ID NO. 4813081 Certificate
8. Dr. Stephen Ikikii 	DOB – 20/01/1978 ID NO. 20155105 Dr.Stephen Ikikii has a PHD in Economics with 14 years experience in top management.
9. Mr. Nehemiah Cheruiyot 	DOB – 14/12/1958 ID NO. 0334133 Mr.Nehemiah Cheruiyot has MSC Agriculture Economics and Resource Management with 33 years experience.
10. Mr. Benson Khwatenge 	Mr. Benson Wafula Khwatenge is the company secretary. He holds Bachelor of Law Degree LLB, post graduate Diploma in Law and currently undertaking master's programme MBA. He has over 16 years' experience in Legal matters.

Nzoia Sugar Company Limited
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For the year ended June 30, 2018 (Kshs '000)

MANAGEMENT TEAM

1. Mr. Michael Kulundu 	Mr. Michael Kulundu Okumba is currently the Ag. Managing Director. He holds a Bachelor degree in production Technology. He is a registered member of engineering board. He has over 26 years experience
2. Mr. Benson W Khwatenge 	Mr. Benson Wafula Khwatenge is the company secretary. He holds Bachelor of Law Degree LLB, post graduate Diploma in Law and currently undertaking master's programme MBA. He has over 16 years' experience in Legal matters.
3. Mr. David S Mulungwa 	Mr. David Salim Mulungwa is the Factory Manager. He holds Bachelor of Science Mechanical Engineering. He is a registered member of Engineering Board. He has over 28 years of experience.
4. Mr. Gabriel S Situma 	Mr. Gabriel Siruchu Situma is the head of production. He holds a Bachelor of Science in Food and Technology. He has over 33 years experience.
5. Mr. Lucas A Otene 	Mr. Lucas Alwala Otene is the head of Internal Audit, He holds a master of Business Administration and Bachelors degree in Business Administrations. He also holds certified public Accountants (K) and member of ICPAK. He has over eight years experience.

Nzoia Sugar Company Limited
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MANAGEMENT TEAM Continued

6. Mr. Ignatius B Wafula 	Mr. Ignatius Biketi Wafula is in charge of Agriculture services department. He holds masters in Project Planning in Production Engineering. He is a registered member of graduate engineers. He has 16 years experience.
7. Mr.Ezron K Kotut 	Mr. Ezron Kibet Kotut is the Finance manager. He holds Masters of Business Administration (executive). He is a certified public Accountant (k) and has over 15 years in the private sector and 8 years experience in sugar industry.
8. Mr. Macklins W Sikuku 	Mr. Macklins Wasike Sikuku is the head of Diversification. He holds Bachelor degree in Agriculture. He has over 27 years of experience
9. Ms. Edwina A Omollo 	Ms. Edwina Akinyi Omollo is the head of Sales and Marketing. She holds a Bachelor Degree in Business Administration. She holds various certificates in sales and marketing. She has over 13 years experience in sales and marketing.
10. Mr. David B Egesa 	Mr. David Barasa Egesa is the Environmental, Health and safety manager. He holds a master in Agriculture and Rural Development, and Bsc-Agriculture. He holds a Diploma in Applied science. He has over 30 years experience in the sugar industry.
11. Mr.Shadrack N Masinde 	Mr. Shadrack Nyongesa Masinde is currently Ag. Human Resource Manager. He is a holder of Bachelor of Arts degree in Government and Public Administration, Member of CHRM. He has over 18 years experience.

Nzoia Sugar Company Limited
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12. Mr. Suleiman S Wanekeya 	Mr. Suleiman Stephen Wanekeya is currently Ag. Information Communication & Technology Manager. He is pursuing Masters degree in strategic Management, Holds Bsc- Information Technology, Diploma Project management, Microsoft certified professional. He has 10 years working experience in Information Technology.
13. Mr. Evans B Oteki 	Mr. Evans Biraori Oteki is in charge of Purchasing Department. He holds Bachelor of Commerce (Business Administration Option), Post graduate diploma in supplies Management, Masters in Business Administration degree; He is a member of CIPS (UK), Member of MKIPSM. He has (23 years) working experience.
14. Mr. Jeremiah J Khamala 	Mr. Jeremiah J Khamala is currently in charge of Agriculture department. He holds a bachelor in Agriculture. He has sustainable agriculture Training, with supervisory development skills and finance training for Non-Finance Managers. He has 22 years experience.
15. Mr. Awino A Gilbert 	Mr. Awino Adoyo Gilbert is the Public Relations Manager. He holds masters of Arts in Communication (Media studies) and Bachelor of Education Degree; He has a certificate on photography and Audio Visual communication. Member of PRSK and has (12 years)

Nzoia Sugar Company Limited
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For the year ended June 30, 2018 (Kshs '000)

CHAIRMAN'S STATEMENT

On behalf of the board of directors and management of the company allow me to present to you the annual report on the business and operations of the company and financial results for the year ended 30 June 2018. The performance of the company has continued to be impacted negatively by key industry challenges namely; lack of mature cane for milling, cane poaching, high cost of production due to milling underage cane and massive importation of sugar which impacted negatively on sugar prices. Consequently, a negative result has been recorded once again. However, the Board and Management have put in place measures and continue to implement strategies aimed at reversing this trend.

SUGAR MARKET OUTLOOK

2017/18 Sugar Overview

Brazil's production is forecast to drop down 34.2 million tons from 39.7 million due to increase in sugarcane being diverted towards ethanol production instead of sugar due to declining sugar prices globally. Exports are projected to drop to 23.6 million tons, lowering Brazil's export market to 38%.

China's production is forecast to rise 10.8 million tons from 10.5million, due to an expanded sugar beet area. Consumption remains unchanged at 15.7 million tons as growth has been limited by increasing health concerns, competition from sugar and sweetener replacements.

India's production is forecast to rise to record 33.8 million tons due to higher area and yields. Imports are forecast lower while exports forecast to triple to 6 million tons as sugar millers reduce record surplus. Consumption is forecast to edge higher to 26.0million tons.

Thailand's production is forecast to expand 370,000 tons to 14.1 million as yields are expected to improve with the recovery from 2 years of drought.

COMESA Countries

COMESA Countries comprising Egypt, Zimbabwe, Zambia, Malawi, Madagascar and Mauritius exported a total of 46,552.01 tons of sugar to Kenya, Uganda and Tanzania exported 9,673.5 tons while NON-COMESA Countries comprising China, Pakistan, Thailand and Belgium exported 24,370.97 tons of sugar to Kenya between the months of January 2018 to May 2018.

Kenya overall sugar exported in January-May 2018 were 1,020.70 tons, all being refined white sugar as Kenya is a deficit producer and thus most of her production is targeted to the local market.

According to the Sugar Directorate, locally produced sugar average cost of production of Kes.87,551 per metric ton cannot compete with sugar imports from some key COMESA countries where the average production cost per metric ton is Kes.40,254 .

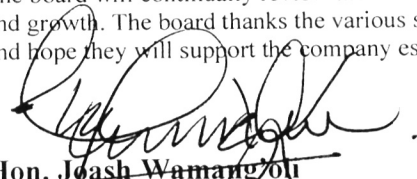
Dividends

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

Future Outlook

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

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


Hon. Joash Wamang'oli
Chairman, Board of Directors

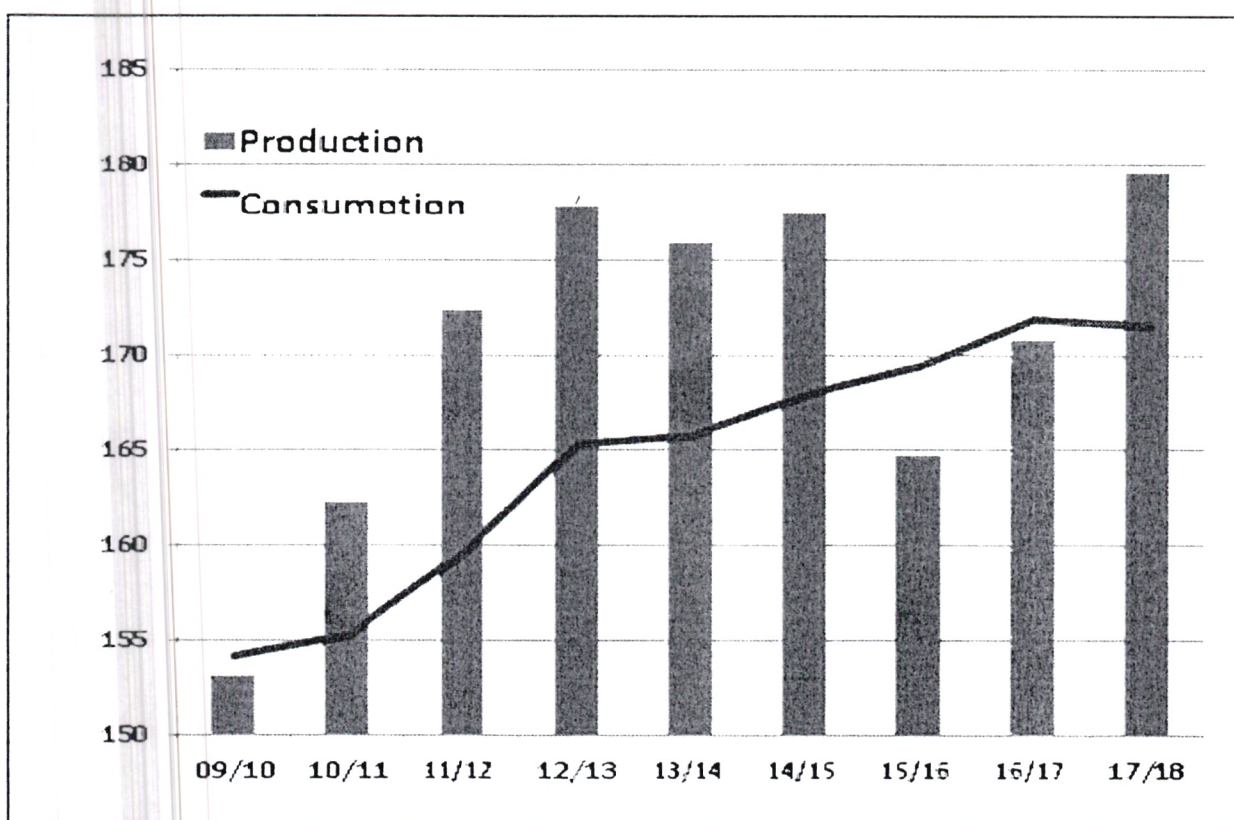
MANAGING DIRECTOR'S REPORT

On behalf of management I present to you the management report on the business and operations of the Company and financial results for the year ended 30th June, 2018. The year under review was challenging given that the factory has been operating below capacity due to lack of raw material for milling. However, prices of sugar declined from Kes.66,320 per ton net of taxes last financial year to Kes. 64,110 per ton net of taxes in year under review. The TC/TS in the year was 13.83. Turnover volumes reduced from 47,377 tons last financial year to 33,884 tons. However, management has put in place measures to correct the situation and is hopeful of improved cane supply and production.

WORLD SUGAR MARKETS

Global production for 2017/18 is up 49 million tons (raw value) to a record 188 million on gains in India and Thailand. Despite record production, stocks are down 2 percent to 38 million tons as lower stocks in China and Mexico more than offset higher stocks in Pakistan.

Table: Global Production vs Consumption



Source: International Sugar Organization Quarterly Market Report

MANAGING DIRECTOR'S REPORT *Continued*

LOCAL SUGAR MARKET

Foreign Agricultural Services (FAS) /Nairobi forecasts Kenya sugar production to increase in 2018/19 due to a recovery from drought experienced in 2017/18. Kenya's sugar consumption is forecast to increase due to growth in retail, industrial and food service sectors supported by an increase in consumer purchasing power and the diversification of sugar-based products.

According to the Sugar Directorate, locally produced sugar average cost of production of Kes.87,551 per metric ton cannot compete with sugar imports from some key COMESA countries where the average production cost per metric ton is Kes.40,254.

In the year under review, West Kenya, Butali and Transmara Sugar Companies were the leading producers accounting for 48% of total production. Meanwhile, Mumias Sugar Company Ltd production was dismal at a mere 3,023MT, attributed to the prevailing cane shortage in the zone.

FINANCIAL PERFORMANCE

Total turnover for the period under review was Kes. 2.4 billion (2017- 4.3 billion) against a budget of 5.8 billion net of taxes. The sales were below target due to low production caused by lack of raw materials.

Prices of sugar significantly declined in the year under review due to influx of imported sugar. Prices of sugar averaged Kes.64,110 per ton net of taxes in the year under review compared to Kes.66,320 per ton net of taxes last financial year.

The company made a loss before tax and interest of Kes. 3.6 billion (2017 – loss of Kes. 2.9 billion) against budgeted profit before tax of Kes.403 million.

Highlights for the year ended 30th June 2018 are as follows;

- Successfully completed repair works on boiler no.3 increasing the efficiency and throughput at the factory.
- Installed electronic shelves at the Agriculture registry office for efficient filing of farmers records.
- Rehabilitated mud filters no.2 and 3.
- Completed auxiliary works and installation of the syrup clarification plant.
- Registered Nzoia sugar company clinic with the NHIF awaiting accreditation certificate. Negotiations are also ongoing for super cover benefits

Challenges for the quarter under review were as follows;

- The Company bagged 33,858 tons of sugar (2017- 46,724 tons) against budget of 74,112 tons of sugar.
- The TC: TS ratio was 13.83 (2017-12.45) compared to budget of 9.85.
- Stiff competition for cane from rival millers.

MANAGING DIRECTOR'S REPORT Continued

- Lack of cane due to cane poaching leading to factory stops.
- Milling of young cane with low polarisation.
- Cash flow challenges.
- High cost of production brought about by underutilization of factory capacities and also logistical challenges of ferrying cane from Western Zone.

WAY FORWARD

The company plans to counter the various challenges as follows:

a. Short term measures

- Increase area under cane by planting more fast maturing cane in the nucleus estate.
- Lobby for cane zoning to be reintroduced to protect company developed raw material.
- Automation of business processes that will assist in cost control and eliminate wastages.
- No filling of vacant positions on staff exits unless on very critical jobs.
- Mechanisation of farm operations at the Nucleus Estate so as to improve on cane husbandry and efficiency.
- Multi-skilling of staff.

b. Long term Measures

- Revenue diversification to increase alternative revenue streams in area of Agribusiness and value addition for sale in domestic market.
- Improve sales distribution channels to increase company revenue
- Strengthen the company own fleet for cane transportation.
- Liming of acidic soils in Nucleus Estate and out growers to increase cane yields.
- Improve on mud filtration system to avoid loss of sugar in mud.
- Increase area under cane by leasing and planting more cane in nucleus and out growers region.



IGNATIUS WAFULA BIKETI

AG. MANAGING DIRECTOR

CORPORATE GOVERNANCE STATEMENT

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

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

The company is committed to maintaining the highest standards of integrity, professionalism and business ethics in all its operations. The company has a code of ethics which gives senior management the responsibility of ensuring legal and statutory compliance. In addition, the Code deals with situations relating to best practices as well as those situations that may give rise to conflict of interest in the conduct of business.

Corporate Governance

- Consultation between the Chairman of the Board, Managing Director and parent ministry were made during the year under review.
- Company had all necessary licenses to operate e.g. Sugar Millers License.
- Key board decisions were forwarded to the parent ministry for necessary approvals before implementation.
- Board Charter was in place.
- Consultant was engaged to facilitate the company to review its strategic plan.
- Approved the annual procurement plan.
- Directors were trained on Corporate Governance and best business practices.

SOCIAL RESPONSIBILITY REPORT

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

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

During financial year 2017/2018, the following projects were undertaken: -

Education

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

- The 231st Board of Directors meeting approved land allocation to Nzoia Industrial Boys Secondary School after proposing that out of the 25 acres allocated to Nzoia Industrial Primary School, 10 acres be set aside for the Boys Secondary School. Following a survey of the land conducted after the deliberations, total acreage was confirmed to be 19.89 as opposed to the previous 25 acres. Therefore, as per the proposed ratios, the boys' school allocation stood at 7.96 acres while the primary school remains with 11.93 acres.
- The company sponsored Douglas Wafula, son to the late Alfred Wafula who died in line of duty to continue learning at Milo Boys High School at a cost of Kes.52,300/=.
- The company sponsored Jilvian Wabwile, daughter to the former slain employee Robert Simiyu to undertake second year studies at the cost of Kes. 125,000.00 at Moi University.

Healthcare

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

Environmental Sustainability

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

During this period, the company donated 100 trees seedlings and 20 assorted flowers to Nzoia Sugar Company Primary School.

Youth development and sports

- Nzoia Sugar Company is a full sponsor of Nzoia Sugar FC. The team currently participates in the Kenyan Premier League and sits position 10th on the KPL standing.
- Nzoia Sugar Company sponsored Webuye Rugby FC to the tune of Kes.1.3 million for uniforms and various tournaments held during the financial period under review.
- The Company sponsored Bungoma County December 2017 games to the tune of Kes.1million.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2018 (Kshs '000)

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of Nzoia Sugar Company Limited (the “company”) for the year ended 30 June 2018, which shows its state of affairs.

PRINCIPAL ACTIVITIES

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

PRODUCTION

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

	Sugar bagged (Tonnes)	Cane milled (Tonnes)	TC:TS
2018	33,858	469,651	13.83
2017	46,724	580,868	12.45
2016	59,147	706,173	11.90
2015	86,821	924,721	10.65
2014	49,648	596,186	12.06

RESULTS

The results of the entity for the year ended 30th June 2018 are set out on pages 20 to 23.

DIVIDENDS

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

DIRECTORS

The current directors of the company are listed on page 5-6.

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2018 (Kshs '000)

REPORT OF THE DIRECTORSContinued

AUDITORS

The Auditor General is responsible for the statutory audit of the company's books of account in accordance with article 229 of the Constitution of Kenya and the Public Audit Act 2015, for the year ended June 30, 2018.



Company Secretary

Bungoma

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

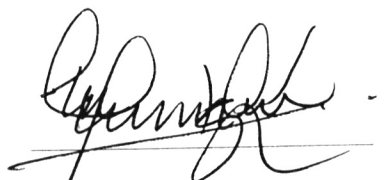
The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal financial controls as the directors determine are necessary to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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

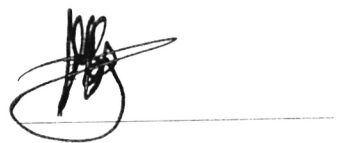
Approval of the financial statements

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



Hon. Joash Wamang'oli
Chairman, Board of
Directors

2018



Mr. Ignatius Wafula
Biketi
Ag. Chief Executive
Officer

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NZOIA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Nzoia Sugar Company Limited set out on pages 20 to 62, which comprise the statement of financial position as at 30 June 2018, 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 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 Nzoia Sugar Company Limited as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act, 2015.

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1. Inaccuracies in Depreciation Charge for the year 2018

It was noted the depreciation charge for the year of Kshs.624,143,000 under asset movement schedule note 15 on property, plant and equipment differs with the depreciation figure in the main financial statements of Kshs.637,152,000 comprising direct charge of Kshs.580,279,000 and operating charge of Kshs.56,873,000 by an unreconciled variance of Kshs.13,009,000.

1.2. Idle Plant

As reported in the previous year, included in the property, plant and equipment balance of Kshs.11,197,183,000 (2016/2017 – Kshs.12,069,771,000) as at 30 June 2018 is a plant with a carrying value of Kshs.295,697,000 based on a valuation carried out in June 2015 by Real Appraisal Limited. This plant was acquired in the period between 1990 and 1993 when the company undertook an expansion of the factory's cane crushing capacity from 3,000 TCD to 7,000 TCD. The expansion was financed by Arkel International LLC and guaranteed by the Government of Kenya. However, as previously reported, the expansion program was not completed and the plant has been lying idle since acquisition and has not generated any income for the Company. It was noted in the valuation report that a proportion of these items are in a deteriorated state. Further, the Company has not recorded possible impairment charge on this asset which has been lying idle for over 28 years.

Report of the Auditor-General on the Financial Statements of Nzoia Sugar Company Limited for the year ended 30 June 2018

In addition, the Company does not maintain a comprehensive fixed assets register which incorporates all pertinent fixed assets transactions, such as disposals, impairment of assets and transfer of capital work-in-progress items to other asset classes. A comprehensive and updated fixed assets register is an integral part of the fixed assets management systems.

1.3. Procurement of Unspecified Goods for the Guest House

Included in the property plant and equipment additions figure of Kshs.119,848,000 is an amount of Kshs.4,320,000 paid to a local supplier in respect of the cost of supplying and furnishing Guest House Cottages. However, detailed description of items to be supplied was not availed for audit verification.

In the circumstances, it was not possible to confirm that property, plant and equipment balance of Kshs.11,197,183,000 as at 30 June 2018 is fairly stated.

2. Long Term Borrowings

2.1. Non Servicing of Loans

Included in the borrowings figure of Kshs.39,577,342,000 under note 26 to the financial statements are two loans received from National Treasury, Kshs.37,106,797,000 and Agricultural Food and Fisheries Authority, Kshs.2,470,544,000. The Government of Kenya through the National Treasury reflects loans guaranteed to the Company of Kshs.37,406,797,000 as at 30 June 2018 (2016/2017: Kshs.36,289,427,000) comprising principal amount of Kshs.10,095,628,375 and accrued interest of Kshs.27,311,169,000. However, the cabinet sessional paper No.12 of 2012 on write off of excess Government of Kenya debt owed by the Company and earlier presented to Parliament in 2009 by the Finance Minister indicates a debt of Kshs.21,782,367,000. The figure is much lower than the outstanding loan liability of Kshs.37,227,320,000. The Company continues to default on repayments while there is no tangible evidence of write-off previously expected from the Government.

Further, it was noted that the two loans totaling Kshs.39,577,342,000 were not supported with relevant documents such as signed financing agreements and approved board paper on loans advanced and the interest charged. Further, independent confirmation of the outstanding loan balances was not obtained from both the National Treasury and Agricultural and Food Authority to confirm accuracy of the loan balances reported as at 30 June 2018.

2.2. Funds Received from Ministry of Agriculture without Financing Agreement

It was further noted that besides the loan balance of Kshs.39,577,342,000 is Kshs.300,000,000 under note 26(b) to the financial statements which was received from the Ministry of Agriculture during the year under review. However, no supporting documents such as terms of loan agreement were availed for audit verification. In the circumstances, it was not possible to ascertain accuracy of the loan balance of Kshs.39,577,342,000 as at 30 June 2018.

2.3 Provisions and Contingent Liabilities

As at the time of audit, there was no independent confirmations from all the Company's lawyers with regard to on-going litigations. There were no alternative procedures that could be performed and it was therefore not possible to establish the impact, if any, that the information held by Company's lawyers could have on these financial statements including whether additional provisions should be recognized or contingent liabilities disclosed.

3. Inventory - Idle Assets

Included in the inventories balance of Kshs.557,326,000 is an amount of Kshs.14,172,745 being the cost of idle inventories acquired on diverse dates during the year under review and prior period as detailed below. Some of these assets have been left in the open yards for approximately two years and may have significantly deteriorated in value as at 30 June 2018.

	Item Description	Goods Received Note	Date Items Delivered	Amount Kshs
1	Bare shaft boiler feed water pump	GR 23664	2/6/2017	4,646,107
2	Drive foot gear box MR 773-180 L/4	GR 49 - 11552	24/3/2017	3,067,141
3	Drive foot gear box MR 672-160 L/4	49- 11552	24/3/2017	2,684,912
4	Drive drum BC 6 H 10/0023	GR 1549	21/8/2017	517,192
5	Drive drum BC 7A H10/0029	1965	18/10/2017	376,640
6	Drive drum BC 5- H10/0019	1965	18/10/2017	327,000
7	Drive drum BC 7410/0026	1965	18/10/2017	285,000
8	Drive drum BC 8 – 410/0031	1965	18/10/2017	435,000
9	Steam pipe 8" 2 pieces	7834	8/4/2014	19,090
10	10" pipes 5 pieces	8850	9/7/2015	189,655
11	MS shaft 150 mm	2767	13/3/2018	221,440
12	MS shaft 100 mm	2767	13/3/2018	72,575
13	MS shaft 50 mm	2770	13/3/2018	14,603
14	Uni beam 203 * 133 *25	1121	6/6/2017	21,000
15	Uni beam 305 * 102 *25	832	25/4/2017	29,800
	Sub-total			12,907,155
			Timber	1,265,590
	Total			14,172,745

In the circumstances, it was not possible to confirm the carrying value of the inventories balance as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Nzoia Sugar Company Limited in accordance with

ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance 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 opinion.

Key Audit Matters

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

Material Uncertainty Related to Going Concern

I draw attention to the Company shareholders' deficit of Kshs.38,382,597,000 (2017: Kshs.34,695,375,000) and current liabilities which exceeded current assets by Kshs.44,683,068,000 (2016/2017: 43,097,259,000). In addition, the Company has defaulted on repayment of both principal and interest on borrowings due to the National Treasury and the Agriculture and Food Authority totaling to Kshs.39,877,342,000 , (2017: Kshs.38,693,301,000) as indicated in note 26(b).

This situation, along with other matters set forth in note 3, indicates the extent of material uncertainty which may cast doubt on the Company's ability to continue as going concern. However, the financial statements have been prepared on the going concern basis, on assumption that it will continue to get financial support from National Government and creditors.

Further, the company continued to incur losses in the current year, reporting an operating loss of Kshs.3,568,733,000 (2016/2017: Kshs.2,926,840,000). This state of affairs is indicative of the acute financial challenges facing the company and raises significant doubts on the Company's ability to operate as a going concern.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Report 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 money has not been applied lawfully and in an effective way.

Basis for Conclusion

1. Poor Maintenance of the Assets Register

Review of the assets register maintained by the Company revealed anomalies stated below:

- a) Location of movable assets are not stated in the register for ease of physical verification.
- b) Numbers indicated in assets identification tags are not the same as the ones in the assets register.

In the circumstances, information contained in the assets register do not serve the intended purpose.

2. Intangible Assets - Enterprise Resource Planning (ERP) Software not Fully Implemented

The Company tendered for supply, implementation and commissioning of integrated enterprise resource planning with Agricultural Management System. The contract was awarded to a local consultant at a cost of USD 2,893,530, equivalent to Kshs.295,140,060 at the prevailing exchange rate as at 31st March 2016. However, it was noted that a total of Kshs.196,924,808 representing 67% of the contract amount had been paid to the supplier of the software, whereas out growers general ledger had not been integrated into the system as per the contract.

3. Debt Recovery

According to the Company's finance department policy manual, customers who fail to settle their accounts within the specified period will be given reminders each month for three months. Thereafter the debt collector will be engaged to initiate legal recovery proceedings. Further, it states that only debts which are uncollectable after legal recovery proceedings will be recommended to the Board for write-off.

However, review of the Company's debtors aging analysis report revealed that trade receivables balance of Kshs.24,914,482 as detailed below have remained outstanding for a period of over 120 days which is contrary to the stated credit policy. Although the Company has made a full provision of Kshs.24,914,000 in respect of the stated receivables, no meaningful progress has been reported towards recovery of the debt. The long overdue accounts are an indication of inadequate and ineffective debt collection measures.

Debtor	Details	Amount Kshs.
Magnum International Ltd	Sugar sales debtor	1,713,376
Ndichu/Nakumatt	Sugar sales debtor	8,920,000
Turbo	Sugar sales debtor	3,866,500
Kenmart	Sugar sales debtor	1,390,500
Spectre International Ltd	Molasses debtor	4,119,696
Mumias Sugar	Cane debtor	4,904,410
Total		24,914,482

In the circumstances, recoverability of the debtors balance could not be confirmed.

4. Trade and Other Receivables

4.1. Advance Payments

According to Section 98 (2) of the Public Finance Management Act, (Regulations 2015) advance payment shall not be paid to suppliers of services and goods unless provided for

in the contractual terms and conditions contained in a valid contract signed between the procuring entity and the supplier.

However, it was noted that the trade and other receivables balance of Kshs.126,567,000 includes prepayments and deposits balance of Kshs.15,051,000 which is made up of an advance payments to supplier of goods and services without a valid contract agreements signed with the Company.

Further, it was noted that some of the goods and services worth Kshs.7,034,378 though not supplied had already been paid for as detailed below;

Supplier	LPO Number	Payment Date	Cheque Number	Kshs
Polyflex Industries Ltd	F08589	2-Aug-16	103877/103674/75/77/78	1,358,632
Alloytech General Supplies	1000001463	24-Nov-17	108143	384,000
Alloytech General Supplies	1000001481	5-Dec-17	108260	384,000
Alloytech General Supplies	1000002144	11-May-18	110430	276,000
Alloytech General Supplies	1000002145	16-May-18	110460	240,000
Alloytech General Supplies	1000001689	2-Feb-18	109192	256,000
Amity Equipment Ltd	1000000532	18-Apr-17	106099	416,551
Amity Equipment Ltd	1000001602	11-Jan-18	108650	72,000
Crown Motors Ltd	1100000217	18-Jan-18	108873	111,870
Crown Paints Kenya	G05737	1-Dec-15	102335	293,680
Crown Paints Kenya	G06360	21-Feb-17	105665	160,651
East African Chains Ltd	F06155	3-Oct-12	35230	178,244
East African Portland Cement	1000001808	1-Mar-18	109731	278,015
Envertek Africa Consult Ltd	S02369	2-Mar-15	41054	100,920
Afritech General Supplies Ltd	1000001480	5-Dec-17	108259	126,000
Signode Packaging Systems Ltd	F08943	19-Dec-16	105045/45	52,200
Soni Technical Services Ltd	F08738	8-Jan-17	105203	275,463
Sucrotech (K) Limited	1100000238	9-Mar-18	109806	346,000
Sucrotech (K) Limited	1400000001	29-Mar-18	110076	485,000
Sukdan Ltd	1000001740	20-Feb-18	109537	466,674
Total Kenya Ltd	1000001309	17-Oct-17	107626	151,937
Total Kenya Ltd	NSC/PUR/AD M/01/30/17	3-Aug-17	106889	620,541
Total				7,034,378

4.2. Safari Imprest

Included in the trade and other receivables balance of Kshs.126,567,000 is an amount of Kshs.55,444,000 in respect of staff receivables which in turn includes Kshs.12,057,057 being balance of safari imprest overdue for accounting. This is contrary to Section 92(5) of

Public Finance Management Act, 2012 which stipulate that imprest holders should account or surrender imprest within seven (7) working days after return to duty station.

Further, it was noted that the staff receivables balance of Kshs.55,444,000 includes a figure of Kshs.8,862,100 outstanding on account of former staff.

In the circumstances, it was not possible to ascertain accuracy of the trade and other receivables balance as at 30 June 2018.

5. Management of Out Growers (Farmers) Balances

5.1. Out Growers Balances

Included in the trade and other payables balance of Kshs.7,185,681,000 detailed under note 28 to the financial statements is an amount of Kshs.502,690,000 owing to out growers that significantly increased from Kshs.249,351,000 in 2017 by Kshs.253,339,000 (50%) yet the company operations were minimal during the year under review.

Further, it was noted that the out-growers balances may not have been accurately captured because the out growers (farmers) are managed using the Agricultural Management Software (AMS) systems which captures individual farmer records while the finance management records are under Systems Applications and Products (SAP) which maintains a control account of the total out growers balances and the two systems have not been integrated.

5.2. Sugar Development Levy

According to the Sugar Act No.10 of 2001 that every sugar company should remit 4% of the ex-factory price for locally produced sugar and this levy should be remitted to the Sugar Board not later than the tenth day of the following month during which the levy was collected.

Included in the trade and other payables figure of Kshs.7,185,681,000 detailed under note 28 of the financial statements is an amount of Kshs.856,603,000 in respect of outstanding sugar levy to be remitted as at 30 June 2018.

In the circumstances, the company has operated in contravention of the Sugar Act No. 10 of 2001.

5.3. Non Remittance of Retirement Benefits Deductions

Section 2 of the Company's retirement benefits scheme 2007, states that the main purpose of the scheme is to provide retirement benefits to the employees, where the members contribute at a rate of 6% of their salary while the sponsor contributes 12% of the member's salary to the fund.

Contrary to the investment policy of the scheme it was noted from the financial statements at Note 19(a) that Company limited has not remitted Kshs.212,627,000 to staff Retirement Benefit Scheme Fund. As such this amount is still accumulating on monthly basis.

Consequently, the retiring staff are not likely to access their pension upon retirement and the continued operation of the retirement benefits scheme fund is doubtful.

5.4. Tax Penalties

It is a requirement that the Company should remit its Value added Tax (VAT), Pay as You Earn (PAYE), Sugar Development Levy (SDL) and withholding taxes to the respective institutions in time. According to Regulations 145 of the Public Finance Management (National Government) Regulations, 2015 any liability or expenditure which could have been avoided and need not have been incurred is a loss.

However, as at the time of audit, it was noted that the Company had delayed remittance of taxes and other Levies which has attracted penalties totaling to Kshs.2,524,265,973 as at 30 June 2018 as detailed below;

Tax Penalties

Item	Balance (Kshs)
Balance b/f	1,882,823,643
VAT	421,281,587
PAYE	220,160,744
Total	2,524,265,973

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, 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 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 the audit that:

- (i) In my opinion, the information given in the report of the directors on page 10 is consistent with the financial statements.
- (ii) In my opinion the auditable part of the directors' expenses report on page 39 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity 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 control 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 control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

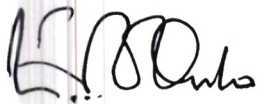
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern or to sustain its services. 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 or to sustain its services.

- 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 to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

NAIROBI

17 April 2019

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2018 (Kshs '000)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

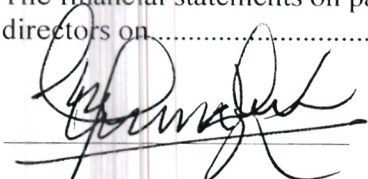
		2018	2017
	Note	Shs'000	Shs'000
Revenue	4	2,369,175	4,356,786
Gains on Disposal of Non-Financial Assets	5	113	(4,824)
Other Income	6	38,638	68,112
Fair value gain/(loss) on biological assets	7	<u>233,305</u>	<u>(224,236)</u>
TOTAL REVENUE		2,641,231	4,195,837
Cost of sales	8	<u>(3,138,832)</u>	<u>(3,905,252)</u>
Gross profit		(497,601)	290,587
OPERATING EXPENSES			
Administrative expenses	9	(2,114,112)	(2,459,220)
Marketing and distribution costs	10	(14,465)	(32,514)
Depreciation of property, plant & machinery	15	(56,873)	-
Amortization of intangible Assets	16	(10,432)	-
TOTAL OPERATING EXPENSES		(2,195,882)	(2,491,734)
OPERATING PROFIT/(LOSS)	11	(2,693,482)	(2,201,148)
Finance income	12	8,793	8,950
Finance costs	13	<u>(884,044)</u>	<u>(589,622)</u>
PROFIT/(LOSS) BEFORE TAXATION		(3,568,733)	(2,781,820)
Taxation credit/(charge)	14	-	<u>(138,248)</u>
PROFIT/(LOSS) AFTER TAXATION		<u>(3,568,733)</u>	<u>(2,920,068)</u>
OTHER COMPREHENSIVE INCOME			
Defined benefit scheme remeasurement	29 b	-	(6,772)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(3,568,733)</u>	<u>(2,926,840)</u>

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2018 (Kshs '000)

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

		2018 Shs'000	2017 Shs'000
ASSETS	Note		
Non current assets			
Property, plant and equipment	15	11,197,183	12,069,771
Intangible assets	16	191,397	200,411
Investment property	17	250,000	250,000
Outgrowers balances	18	23,313	
		11,661,893	12,520,182
Current assets			
Due from outgrowers	18	46,622	23,115
Inventories	19	577,326	494,479
Biological assets	7	367,697	342,721
Trade and other receivables	20	126,567	140,680
Short term deposits	21	47,000	90,047
Cash and bank balances	22	10,925	2,364
		1,176,138	1,093,405
Total assets		12,838,031	13,613,587
EQUITY AND LIABILITIES			
Equity			
Share capital	23	543,000	543,000
Revaluation surplus	24	5,970,263	6,088,752
Retained earnings	25	(44,895,860)	(41,327,127)
Shareholders' equity		(38,382,596)	(34,695,375)
Non current liabilities			
Long term borrowings	26	300,000	233,016
Deferred income taxation liability	27	3,885,282	3,885,282
		4,185,282	4,118,298
Current liabilities			
Borrowings	26	39,577,342	38,460,285
Trade and other payables	28	7,185,681	5,396,524
Provident fund obligation	29 a	212,627	243,947
Defined benefit scheme liability	29 b	45	45
Provision for staff leave pay	30	58,923	89,138
Taxation payable	14	726	726
		47,035,343	44,190,664
Total equity and liabilities		<u>12,838,031</u>	<u>13,613,587</u>

The financial statements on pages 5 to 58 were approved and authorised for issue by the board of directors on 2018 and were signed on its behalf by:


Hon. Joash Wamang'oli
Chairman, Board of
Directors


Mr. Ignatius Wafula
Biketi
Ag. Chief Executive
Officer

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
For the year ended June 30, 2018 (Kshs '000)

STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 30 JUNE 2018

	Share capital Shs'000	Revaluation surplus Shs'000	Retained deficit Shs'000	Total Shs'000
At 1 July 2016	543,000	6,328,656	(38,627,233)	(31,755,577)
Prior year adjustment (note 29(b))			(12,958)	(12,958)
As restated	543,000	6,328,656	(38,640,191)	(31,768,535)
Total comprehensive loss	-	-	(2,926,840)	(2,926,840)
Transfer of excess depreciation	-	(342,720)	342,720	-
Deferred tax on excess depreciation	-	102,816	(102,816)	-
At 30 June 2017	543,000	6,088,752	(41,327,127)	(34,695,375)
At 1 July 2017	543,000	6,088,752	(41,327,127)	(34,695,375)
Total comprehensive loss	-	(118,489)	(3,568,733)	(3,687,222)
At 30 June 2018	543,000	5,970,263	(44,895,860)	(38,382,597)

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

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 Shs'000	2017 Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	31 (a)	(52,678)	227,366
Interest received	12	8,793	8,950
Interest paid		-	(8,362)
Taxation paid	14	-	(1,805)
Net cash generated from/(used in) operating activities		(43,885)	226,149
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	15	(119,849)	(233,102)
Additions to biological assets	7	(169,122)	
Additions to intangible assets	16	(1,630)	(29,468)
Net cash used in investing activities		(290,601)	(262,570)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received	26	300,000	-
Loans repaid	26	-	(6,637)
Net cash (used in)/generated from financing activities		300,000	(6,637)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(34,486)	(43,059)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
		92,411	135,470
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
	31(b)	57,925	92,411
		=====	=====

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018

1 ACCOUNTING POLICIES

Statement of compliance

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

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

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

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

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

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The application of the amendment had no effect on the company's financial statements as the company did not have any offsetting arrangements in place.
New and revised standards on consolidation and joint arrangements, associates and disclosures	In May 2011, a package of five standards in consolidation and joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards. The application of the new standard has not had any impact on the disclosures or the amounts recognised in these financial statements as the company does not have any joint arrangements.
IFRS 13 Fair Value Measurement	The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (Continued)

I ACCOUNTING POLICIES (Continued)

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

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018 (Continued)

IFRS 13 Fair Value Measurement (Continued)

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position. The application of amendments to IAS 1 has not had any material impact since the company has not restated its financial statements.

IAS 19 Employee Benefits (as revised in 2011)

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (Continued)

1 ACCOUNTING POLICIES (Continued)

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

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018 (Continued)

IAS 19 Employee Benefits (as revised in 2011) (Continued)	All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.
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The above amendments are generally effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011).

The company recognised all actuarial gains and losses through other comprehensive income in order for the net pension asset recognised in the statement of financial position to reflect the full value of the plan surplus, and restated the comparative amounts on a retrospective basis.

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9	1 January 2018
Amendments to IFRS 9 and IFRS 7	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
Amendments to IAS 32	1 January 2014
Amendments to IAS 36	1 January 2014
Amendments to IAS 39	1 January 2014

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2018

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (Continued)

1 ACCOUNTING POLICIES (Continued)

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

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2018 (Continued)

IFRS 9 Financial Instruments

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the company anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The directors of the company do not anticipate that the application of the standard will have a significant impact on the company's financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the company do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the company's financial statements as the company does not have any significant assets that have been deemed to be impaired.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (Continued)

I ACCOUNTING POLICIES (Continued)

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

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2018(Continued)

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The directors of the company do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the company's financial statements as the company does not have any significant financial assets and financial liabilities that qualify for the offset.

Annual Improvements 2010-2012 Cycle

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 — clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52.
- IAS 40 — clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2017. The directors of the company do not anticipate that the application of these improvements to IFRSs will have a significant impact on the company's financial statements.

(iii) Early adoption of standards

The company did not early-adopt any new or amended standards in 2018.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Basis of preparation

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

Revenue recognition

(i) Sale of goods

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

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
 - the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
 - the amount of revenue can be measured reliably;
 - it is probable that the economic benefits associated with the transaction will flow to the company; and
 - the costs incurred or to be incurred in respect of the transaction can be measured reliably.
- Sugar Development Levy does not apply to export sugar and molasses sales. Value Added Tax does not apply to export sugar sales as well as sales to exempted entities.

(ii) Interest income

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

(iii) Other income

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

Foreign currencies

In preparing the financial statements of the company, transactions in currencies other than its functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

I ACCOUNTING POLICIES (Continued)

Taxation

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

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

Deferred income taxation is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income taxation.

Property, plant and equipment

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

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

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

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

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

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

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Inventories

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

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

Intangible assets

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

Biological assets

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

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

Immature growing cane is valued at cost.

Leases

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

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

The company as lessor

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

The company as lessee

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

I ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

Financial instruments

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

Financial assets

Classification

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held to maturity

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

Available-for-sale financial assets

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

Nzoia Sugar Company Limited
Annual Reports and Financial Statements
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Recognition

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

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

Derecognition

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

Financial liabilities

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

Other financial liabilities

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

Borrowings

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

Trade and other payables

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

Impairment

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

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

I ACCOUNTING POLICIES (Continued)

Employee benefits

Defined benefit scheme

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

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

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

Defined contribution schemes

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

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

Provision for staff leave pay

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

Dividends

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

Comparatives

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

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

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

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

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

Held to maturity investments

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

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

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

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

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

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

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

(ii) Key sources of estimation and uncertainty

Biological assets (unharvested cane)

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

Property, plant and equipment and intangible assets

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

Impairment

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

Contingent liabilities

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

3 GOING CONCERN

At 30 June 2018, the company had a shareholders' deficit of Shs 38,382,596 (2017 - Shs 34,695,375) and current liabilities exceeded current assets by Shs 45,859,205 (2017 - Shs 43,094,574). This situation indicates the existence of a material uncertainty which may cast doubt on the company's ability to continue as a going concern.

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Shs'000	2017 Shs'000
4 REVENUE ANALYSIS		
Gross sales	2,748,243	5,077,374
Less: Sugar Development Levy	-	(36,358)
Less: Value Added Tax	(379,068)	(720,588)
Net sales	2,369,175	4,356,786
Net sales analysed as follows:		
Sugar sales	2,172,315	4,166,474
Molasses sales	196,860	190,312
	2,369,175	4,356,786
5 GAINS ON DISPOSAL OF NON-FINANCIAL ASSETS		
Disposal of Motor vehicles	113	(4,824)
	113	(4,824)
Station. Wagon KAV 547 E of NBV Kes.464,062 and YAMAHA KBL 756 G of NBV Kes. 35,273 were disposed off in the financial year 2017/18 at Kes. 612,500 realising a gain of Kes.113,165.00		
6 OTHER INCOME		
Rental income	898	835
Miscellaneous Receipts	6,435	35,542
Nita Recoveries	795	3,083
Company Machine Fleets	30,509	28,652
	38,638	68,112

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Shs'000	2017 Shs'000
7 BIOLOGICAL ASSETS		
At beginning of the year	342,721	-
- Additions	169,122	470,207
Decrease due to harvest	(377,450)	96,749
As restated	134,393	566,956
(Loss)/gain arising from changes in fair value attributable to price changes	273,994	(224,235)
Loss)/gain arising from changes in fair value attributable to physical changes	(40,689)	
Fair value gain/(loss) during the year	<u>233,305</u>	<u>(224,235)</u>
At the end of the year	<u>367,698</u>	<u>342,721</u>

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

8. COST OF SALES

	2018 Shs'000	2017 Shs'000
Opening stock raw material-Cane	-	1,244
Cane purchased -N/Estate	469,760	629,969
-O/G	1,383,325	1,795,800
Total cane received	1,853,085	2,427,013
Raw materials available for crushing	1,853,085	2,428,257
Closing stock raw materials	-	
Cost of cane ground	1,853,085	2,428,257
Production - Direct labour	141,657	158,082
- Direct Expenses	88,123	177,797
Total Direct expenses	229,780	335,879
Prime costs	2,082,865	2,764,135
Factory -Indirect labour	204,687	224,477
-Indirect Expenses	230,357	332,853
-Depreciation	580,279	625,337
Total indirect costs	1,015,323	1,182,667
Factory cost of production	3,098,187	3,946,802
Add: Opening work in progress	12,106	22,862
Less: Closing work in progress	(33,984)	(12,106)
Factory cost of completed goods	3,076,309	3,957,558
Add: Opening stock Finished goods	63,473	11,166
Goods available for sale	3,139,782	3,968,725
Less: Closing stock Finished goods	(950)	(63,473)
Cost of sales	<u>3,138,832</u>	<u>3,905,252</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Shs'000	2017 Shs'000
9 (a)		
ADMINISTRATIVE EXPENSES		
Staff costs	934,880	1,051,870
Other costs	89,877	61,080
Performance bonus	-	-
Legal and professional fees	23,287	47,221
Corporate social responsibility	4,353	4,758
Depreciation	-	62,297
Medical services	29,743	45,317
Travelling	39,973	60,346
Security	748	10,577
Books & Periodical	237	202
Directors expenses	42,721	39,804
Directors' emoluments	-	1,445
Honorarium	663	714
Amortisation of intangible assets	-	4,019
Repairs and maintenance	15,599	36,843
Rent and rates	19,082	28,151
Insurance	68,529	83,648
Cane safety expense	9,076	8,398
Bank charges	3,275	3,594
Contracted services	43,874	40,516
Telephones and communications	4,087	4,048
Audit fees	7,000	8,346
Stationery	438	10,998
Bad and doubtful debts	-	101,649
Inventory obsolescence provision	-	74,948
Contingency	73,200	2,706
Donations	2,029	414
Fuel and lubricants	56,606	79,416
Motor vehicle running	2,245	10,874
Loss on disposal of fixed assets	-	4,824
Foreign Exchange Differences	1,148	57,381
Tax penalties	641,442	512,816
	<u>2,114,112</u>	<u>2,459,220</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018	2017
	Shs'000	Shs'000
9(b) STAFF COSTS		
Salaries and allowances	747,301	804,582
Bonus	-	-
Pension - defined contribution scheme	57,240	71,241
Provident fund	-	479
Staff overtime	41,741	65,700
Staff training	3,023	23,541
Casual labour	75,862	62,517
Other staff costs	4,377	8,225
Staff gratuity provision	-	-
Pension - statutory defined contribution scheme	5,334	8,721
Defined benefit scheme credit (note 18(b))	-	2,520
	<u>934,880</u>	<u>1,047,526</u>
	=====	=====

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

Permanent employees-Management	326	-
Permanent employees-Unionisable	691	-
Temporary and contract employees	1490	-

10. MARKETING AND DISTRIBUTION COSTS

Salaries and wages of sales personnel	-	-
Advertisement and promotional expenses	13,163	30,181
Other Selling and distribution costs	1,302	2,334
	<u>14,465</u>	<u>32,514</u>
	=====	=====

11. LOSS BEFORE TAXATION

Loss before taxation is arrived at after:

Charging:

Staff costs (note 6 b)	934,880	1,047,526
Depreciation of property, plant and equipment (note 12)	624,143	688,934
Amortisation of intangible assets (note 13)	10,432	4,019
Directors' emoluments - fees	-	-
- other	-	1,445
Directors' expenses	42,721	39,804
Auditors' remuneration	7,000	8,346
Bad and doubtful debts	-	101,649
Profit(loss) on disposal of assets	(113)	4,824
Loss(Gain) on foreign exchange	(1,148)	53,929
Interest receivable	(8,793)	(8,950)
	<u>-</u>	<u>-</u>
	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018	2017
	Shs'000	Shs'000
12 FINANCE INCOME		
Interest income:		
On farmers balances	-	2,424
On deposits with financial institutions	7,832	5,622
On staff loans	962	904
	<u>8,793</u>	<u>8,950</u>

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

	2018	2017
	Shs'000	Shs'000
13 FINANCE COSTS		
Interest expense	<u>884,044</u>	<u>589,622</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Shs'000	2017 Shs'000
14 TAXATION		
(a) Taxation charge/(credit)		
Current taxation based on the adjusted profit for the year at 30% - current year		2,685
Deferred taxation credit (note 18)	-	135,563
Prior year under provision of taxation recoverable		(9)
	<u>-</u>	<u>138,239</u>
	=====	=====
(b) Reconciliation of expected tax based on loss before taxation charge/(credit)		
Loss before taxation	(3,568,733)	(2,781,820)
	<u>=====</u>	<u>=====</u>
Tax at the applicable rate of 30%		(834,546)
Tax effect of non-deductible expenses		138,239
Tax effect of non-taxable income		-
Deferred tax not recognised	-	834,546
Prior year over provision- deferred tax		-
	<u>-</u>	<u>138,239</u>
	=====	=====
(c) Taxation recoverable		
At beginning of the year	(726)	(72)
Paid in the year	-	(1,805)
Charge for the year	-	2,685
Prior year under provision of taxation recoverable		(9)
	<u>(726)</u>	<u>(799)</u>
	=====	=====
At end of year	(726)	(799)

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT

COST OR VALUATION	Leasehold land Shs '000	Factory building Shs '000	Residential & school buildings Shs '000	Plant & machinery Shs '000	Tractors, trailers & heavy vehicles Shs '000	Cars & motor cycles Shs '000	Furniture, fittings & equipment Shs '000	Computer system Shs '000	Factory tools & implements Shs '000	Water & electricity installation Shs '000	Cane Roots	Capital WIP Shs '000	Total Shs '000
At 1 July 2016	5,800,339	655,771	100,771	5,028,421	364,022	95,437	30,793	48,280	6,691	119,204	27,864	1,173,431	13,423,160
Additions	-	2,255	-	5,984	7,321	14,715	8,947	11,902	5,260	-	35,968	140,752	233,102
Revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer	-	4,097	-	354,048	-	-	-	23,869	4,243	-	-	(386,257)	-
Disposals	-	-	-	-	(8,150)	(4,370)	-	-	-	-	-	-	(12,520)
Transfer to intangible assets	-	-	-	-	-	-	-	-	-	-	-	(173,622)	(173,622)
At 30 June 2017	<u>5,800,339</u>	<u>662,123</u>	<u>100,771</u>	<u>5,388,453</u>	<u>363,193</u>	<u>105,781</u>	<u>39,740</u>	<u>84,050</u>	<u>16,194</u>	<u>119,204</u>	<u>63,832</u>	<u>754,304</u>	<u>13,497,984</u>
At 1 July 2017	5,800,339	662,123	100,771	5,388,453	363,193	105,781	39,740	84,050	16,194	119,204	63,832	754,304	13,497,984
Additions	-	634	-	13,263	11,577	-	3,992	1,300	14,188	-	-	74,894	119,848
Revaluation	-	-	-	-	-	(540)	-	-	-	-	-	(363,148)	(363,688)
Transfer	-	19,145	-	241,896	-	-	-	-	-	-	-	(261,041)	-
Disposals	-	-	-	-	-	(970)	-	-	-	-	-	-	(970)
At 30 June 2018	<u>5,800,339</u>	<u>681,902</u>	<u>100,771</u>	<u>5,643,612</u>	<u>374,770</u>	<u>104,271</u>	<u>43,732</u>	<u>85,350</u>	<u>30,382</u>	<u>119,204</u>	<u>63,832</u>	<u>205,009</u>	<u>13,253,174</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land	Residential Factory building	& school building	Plant & machinery	Tractors, trailers Tractors & heavy vehicles	Cars & motor cycles	Furniture, fittings & equipment	Computer Hardware	Factory tools & implements	Water & electricity installation	Cane Roots	Capital WIP	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
DEPRECIATION													
At 1 July 2016	-	53,299	11,178	502,842	115,448	23,859	4,619	7,242	1,004	17,881	5,573	-	742,945
Charge for the year	-	49,028	10,619	487,963	74,174	20,754	5,268	11,521	1,642	15,199	12,766	-	688,934
Disposals	-	-	-	-	(2,573)	(1,093)	-	-	-	-	-	-	(3,666)
At 30 June 2017	-	102,327	21,797	990,805	187,049	43,520	9,887	18,763	2,646	33,080	18,339	-	1,428,213
At 1 July 2017	-	46,104	10,088	465,221	56,035	15,188	5,076	9,988	3,524	12,919	-	-	624,143
Charge for the year	-	46,104	10,088	465,221	56,035	15,188	5,076	9,988	3,524	12,919	-	-	624,143
At 30 June 2018	-	148,431	31,885	1,456,026	243,084	58,708	14,963	28,751	6,170	45,999	18,339	-	2,052,356
NET BOOK VALUE (Valuation)													
At 30 June 2018	5,800,339	543,839	62,759	4,186,988	128,176	46,034	28,768	56,600	19,968	73,207	45,493	205,009	11,197,183
At 30 June 2017	5,800,339	559,796	78,974	4,397,648	176,144	62,261	29,853	65,287	13,548	86,124	45,493	754,304	12,069,771

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

In 1977, the company was granted leasehold land registration East Bukusu/North Sang'alo/1904, East Bukusu/East Sang'alo/1444 and Ndivisi/Khalumuli/1459 and a 50-year land grant for land reference 4857/64 with effect from April 2002 from the Government of Kenya. In 2009, the leasehold land was valued at Shs 6,028,600,000.

16 INTANGIBLE ASSETS

	2018 Shs'000	2017 Shs'000
COST		
At 1 July	235,634	32,544
Additions	1,630	29,468
Transfer from capital WIP		173,622
	<u>237,264</u>	<u>235,634</u>
AMORTISATION		
At 1 July	35,223	31,204
Charge for the year	10,432	4,019
	<u>45,667</u>	<u>35,223</u>
NET BOOK VALUE	<u>191,397</u>	<u>200,411</u>

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

17 INVESTMENT PROPERTY

At fair value:

At beginning of year	250,000	230,000
Fair value gain	-	20,000
	<u>250,000</u>	<u>250,000</u>
At end of year	250,000	250,000

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Shs'000	2017 Shs'000
18 DUE FROM OUTGROWERS		
Due from out-growers	396,324	382,390
Less: provision for doubtful debts	(326,391)	(359,274)
	<u>69,933</u>	<u>23,115</u>
	<u>=====</u>	<u>=====</u>
Due within 1 year	46,622	15,410
After 1 year	23,311	7,705
	<u>69,933</u>	<u>23,115</u>
	<u>=====</u>	<u>=====</u>
Due from outgrowers relates to credit advanced to farmers towards farm inputs. The cane planted acts as collateral for the amount advanced. The cane plants take a maximum of 2 years to harvest.		
	2018 Shs'000	2017 Shs'000
19 INVENTORIES		
Sugar and molasses	950	11,129
Sugar in process	33,984	22,356
Raw materials	-	-
Consumables	542,392	460,994
	<u>577,326</u>	<u>494,479</u>
	<u>=====</u>	<u>=====</u>
	2018 Shs'000	2017 Shs'000
20 TRADE AND OTHER RECEIVABLES		
Trade receivables	24,914	26,317
Less provision for doubtful debts	(24,914)	(24,917)
	<u>-</u>	<u>1,400</u>
	<u>=====</u>	<u>=====</u>
Other receivables	56,072	40,929
Prepayments and deposits	15,051	24,385
Staff receivables	<u>55,444</u>	<u>73,966</u>
	<u>126,567</u>	<u>140,679</u>
	<u>=====</u>	<u>=====</u>
	2018 Shs'000	2017 Shs'000
21 SHORT TERM DEPOSITS		
National Bank of Kenya Limited	-	2,450
Standard Chartered Bank of Kenya Limited	47,000	87,597
	<u>47,000</u>	<u>90,047</u>
	<u>=====</u>	<u>=====</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Shs'000	2017 Shs'000
The effective interest rates was as follows:	2018	2017
	%	%
National Bank of Kenya Limited	11	11
Standard Chartered Bank of Kenya Limited	9	9
	====	====

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

22 BANK AND CASH BALANCES

Cash and bank balances	10,925	2,364
Short term deposits (note 18)	47,000	90,047
	=====	=====
	57,925	92,411
	=====	=====

Cash and bank balances are held at National Bank, Kenya Commercial Bank, Co-operative Bank of Kenya, Diamond Trust Bank and Standard Chartered Bank as at 30th June 2018.

23 ORDINARY SHARE CAPITAL

	2018 Shs'000	2017 Shs'000
Authorised:		
30,000,000 ordinary shares of Shs 20 each	600,000	600,000
	=====	=====
Issued and fully paid:		
27,150,000 ordinary shares of Shs 20 each	<u>543,000</u>	<u>543,000</u>

24 REVALUATION RESERVE

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

25 RETAINED EARNINGS (DEFICIT)

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Shs'000	2017 Shs'000
26 BORROWINGS		
a) Loans		
National Treasury	37,406,797	36,289,427
Agriculture Food and Fisheries Authority	2,470,544	2,403,874
	<u>39,877,342</u>	<u>38,693,301</u>
The borrowings are repayable as follows:		
On demand or within 1 year	39,577,342	38,460,285
After 1 year	300,000	233,016
	<u>39,877,342</u>	<u>38,693,301</u>
Total borrowings	<u>39,877,342</u>	<u>38,693,301</u>
The company has defaulted on loan repayments and the entire loan amount is due for repayment on demand.		
	2018 Shs'000	2017 Shs'000
b) Movement in loans		
At 1 July	38,693,301	38,062,016
Accrued interest	884,041	589,622
Interest paid	-	(8,362)
Foreign exchange difference	-	56,662
Loans received	300,000	-
Loans repaid	-	(6,637)
	<u>39,877,342</u>	<u>38,693,301</u>
At 30 June	<u>39,877,342</u>	<u>38,693,301</u>
This is made up of:		
Principal	12,544,135	12,544,135
Accrued interest	27,333,207	26,149,166
	<u>39,877,342</u>	<u>38,693,301</u>

26 BORROWINGS

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

c) Interest rates	2018 %	2017 %
The National Treasury	5.3	5.3
Agriculture Food and Fisheries Authority	10.9	10.9

d) Details of securities for borrowings

The loans from The National Treasury and the Agriculture Food and Fisheries Authority are unsecured. These loans were advanced in tranches on diverse dates in the 1980's and have been long outstanding. The company has defaulted on repayment of both principal and interest in the past. The terms and conditions of the loan could not be satisfactorily established due to the lapse in time and the lack of complete records.

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

27 DEFERRED INCOME TAXATION LIABILITY

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

	2018 Shs'000	2017 Shs'000
The net deferred taxation liability is attributable to the following items:		
Deferred taxation liabilities:		
Accelerated capital allowances	-	1,719,603
Fair value adjustment - biological assets	-	102,816
Revaluation surpluses	-	2,545,575
Total liabilities	-	4,367,994
Deferred taxation assets:		
Provision for service gratuity		(73,184)
Provision for staff leave pay		(26,741)
Unrealised exchange losses		(17,214)
General doubtful debts provision		(268,633)
Provision for obsolete stock		(96,940)
Tax losses available for offset against future profits		(5,535,461)
Deferred tax assets not recognised		5,535,461
Total assets		(482,712)
Total	3,885,282	3,885,282
	=====	=====

The movement on the deferred taxation account during the year was as follows:

At 1 July	3,885,282	3,387,721
Prior year adjustment (note 28)	-	361,998
As restated		3,749,719
Charged to other comprehensive income		-
Profit or loss charge(note 8a)		135,563
At 30 June	3,885,282	3,885,282
	=====	=====

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Shs'000	2017 Shs'000
28 TRADE AND OTHER PAYABLES		
	2018 Shs'000	2017 Shs'000
Trade payables	709,954	709,319
Due to out growers	502,690	249,351
Tax penalties	2,524,266	1,882,824
Sugar Development Levy	856,603	856,603
Accruals	1,312,172	919,302
Other payables	1,279,996	779,124
	<u>7,185,681</u>	<u>5,396,524</u>
	=====	=====
29 RETIREMENT BENEFITS OBLIGATIONS		
	2018 Shs'000	2017 Shs'000
(a) AMOUNTS DUE TO STAFF PROVIDENT FUND		
Balance at the beginning of the year	243,948	323,563
Interest charge	-	-
Paid during the year	(31,321)	(79,615)
	<u>212,627</u>	<u>243,948</u>
	=====	=====

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

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

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

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

29

(b) DEFINED BENEFITS SCHEME ASSET(CONTINUED)

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

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

The principal assumptions used for the purposes of the actuarial valuations were as follows:

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

	2018	2017
	Shs'000	Shs'000
The credit recognised in profit or loss in respect of the scheme is as follows:		
Current service cost		3,582
Net interest on the net defined benefit asset		(1,062)
Total included in staff costs in respect of scheme		2,520
	=====	=====

29 RETIREMENT BENEFITS OBLIGATIONS

	2018	2017
	Shs'000	Shs'000
Actuarial gains		4,567
Return on plan assets		12,770
Change in effect of asset ceiling		(10,564)
Total (credit)/charge to other comprehensive income		6,772
	=====	=====

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

	2018	2017
	Sh'000	Sh'000
Value of accrued liabilities	-	(387,411)
Value placed on scheme assets	-	387,366
	(45)	(45)
	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 Shs'000	2017 Shs'000
30 PROVISIONS FOR STAFF LEAVE PAY		
At the beginning of the year	89,137	91,612
Provision for the year	-	42,434
Paid in the year	(30,214)	(44,909)
At the end of the year	58,923	89,137
	2018	2017
	Shs'000	Shs'000
31 NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of loss before taxation to cash generated from(used in) operations		
Loss before taxation	(3,568,733)	(2,781,820)
<i>Adjustments:</i>		
Finance income (note 9)	(8,793)	(8,950)
Finance costs (note 8)	884,044	589,622
Fair value gain investment property	-	(20,000)
Depreciation (note 12)	624,143	688,934
Amortisation (note 13)	10,432	4,019
Loss/(gain) on disposal of property, plant and equipment	(113)	4,824
Foreign exchange difference on borrowings	(1,148)	53,929
Fair value loss /gain on biological assets (note 4)	233,305	224,235
Biological assets harvested (note 4)	-	-
Cash used in operations before working capital changes	(1,826,864)	(1,245,207)
<i>Movements in:</i>		
Out-growers balances	(46,820)	(3,735)
Inventories	82,847	42,507
Trade and other receivables	14,113	2,453
Staff provident fund	(31,320)	(79,615)
Defined benefit obligation (note 26b)	-	9,202
Trade and other payables	1,785,579	1,504,235
Provision for staff leave pay	(30,215)	(2,475)
Cash generated(used in) operations	(52,678)	227,366
(b) Analysis of the balances of cash and cash equivalents		
Cash and bank balances	10,925	2,364
Short term deposits (note 18)	47,000	90,047
	57,925	92,411

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 RELATED PARTY BALANCES AND TRANSACTIONS

a) Key management compensation

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

Salaries and other benefits	52,427	51,183
	=====	=====

b) Directors' remuneration

Fees for services as directors
Other emoluments
Directors' expenses

-	1,445
42,721	38,804
=====	=====

33 CAPITAL COMMITMENTS

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

Authorised and contracted for	47,000	366,933
Authorised but not contracted for	677,861	630,622
	=====	=====
	724,861	997,555
	=====	=====

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

2018	2017
Shs'000	Shs'000

34 CONTINGENT LIABILITIES

Pending claims	74,200	81,800
Letters of credit	47,000	2,450
	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES

Overview

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

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

- Credit risk
- Market risk
- Liquidity risk

The key operational risks include political and environmental risks.

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

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

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

The company counters this risk by placing significant emphasis on the vetting and selection of farmers. This is done with the aid of comprehensive and documented criteria which includes a review of farmers' payment histories. The company also monitors budgeted sales outputs and expected factory crushing capacity and also forecasts of expected environmental conditions to aid it in budgeting for these advances. However the existence of favourable weather conditions will always remain outside the control of the company. Political upheavals and general unrest also pose a risk to the company usually resulting in the burning of immature cane. Burning of immature cane reduces the quality and the quantity of the yield from such cane in addition to raising production costs and waste. While an element of this risk is outside the company's control, it has however sought to mitigate this risk by enhancing security in its nucleus estates. The company does not purchase burnt cane from farmers in order to discourage irresponsible burning of immature cane by farmers in order to readily obtain quick cash.

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

Credit risk management (Continued)

Collateral

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

The credit risk exposures are classified in three categories:

Neither past due nor impaired

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

Past due but not impaired

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

Impaired

Impaired financial assets are those for which the company determines that it is probable that it will be unable to collect all payments due according to the contractual terms of the agreement(s). No collateral is held with respect to the debt, or the collateral doesn't sufficiently cover the exposure.

On an ongoing basis, a credit evaluation is performed on the financial condition of accounts receivable.

Analysis of credit risk exposure

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

	Neither past due nor impaired Shs'000	Past due but not impaired Shs'000	Impaired Shs'000	Total Shs'000
30 June 2018				
Trade receivables	-	-	24,914	24,914
Due from outgrowers	46,622	23,311	326,391	396,325
Short term deposits	47,000	-	-	47,000
Bank balances	10,925	-	-	10,925
	<u>104,547</u>	<u>23,311</u>	<u>351,305</u>	<u>479,164</u>
30 June 2017				
Trade receivables	-	1,400	24,917	26,317
Due from outgrowers	-	23,115	359,274	382,390
Short term deposits	90,047	-	-	90,047
Bank balances	2,364	-	-	2,364
	<u>92,411</u>	<u>24,515</u>	<u>384,191</u>	<u>501,117</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

Market risk management

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

(i) Interest rate risk

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

(ii) Currency risk

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

Liquidity risk management

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 RISK MANAGEMENT POLICIES (Continued)

Liquidity risk management (Continued)

	1 - 6 months Shs'000	6 - 12 Months Shs'000	Above 1 year Shs'000	Total Shs'000
At 30 June 2017				
Borrowings	-	38,460,285	233,016	38,693,301
Trade payables	709,319	-	-	709,319
Payables to outgrowers	249,351	-	-	249,351
	<u>958,670</u>	<u>38,460,285</u>	<u>233,016</u>	<u>39,651,971</u>

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

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

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

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

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
At 30 June 2018				
Property, plant and equipment	-	11,197,183	-	11,197,183
Biological assets	-	367,698	-	367,698
Investment property		250,000	-	250,000
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
At 30 June 2017				
Property, plant and equipment	-	12,069,771	-	12,069,771
Biological assets	-	342,720	-	342,720
Investment property		250,000	-	250,000
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

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

b) Financial instruments not measured at fair value

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 CAPITAL MANAGEMENT

The company's objectives when managing capital are:

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

The capital structure of the company consists of debt, which includes the borrowings less cash and cash equivalents and equity attributable to equity holders, comprising issued capital, revaluation surplus and retained earnings. The Board of Directors reviews the capital structure on a regular basis. As part of this review, the board considers the cost of capital and the risks associated with each class of capital. Based on the review, the company analyses and assesses the gearing ratio to determine the appropriate levels. This ratio is calculated as net debt divided by equity. Net debt is calculated as total borrowings less cash and cash equivalents.

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

	2018	2017
	Shs '000	Shs '000
The gearing ratio at the year-end was as follows:		
Shareholders' deficit	(38,382,596)	(41,066,785)
Borrowings (note 23)	39,877,342	38,693,301
Short term deposits (note 18)	(47,000)	(90,047)
Cash and bank balances(note 19)	(10,925)	(2,364)
Net debt	39,819,417	38,600,890
Gearing ratio	Over 100%	Over 100%

37 INCORPORATION

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

38 CURRENCY

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

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39 **PROGRESS ON FOLLOW UP ON AUDITORS RECOMMENDATIONS 2017**

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

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there was a possibility that the out-growers balances recorded were not be accurate.		
iv) The National Treasury Guaranteed loans As at 30/6/2017 the Government of Kenya through the National Treasury loans guaranteed to the company's creditors stood at Kshs 36,289,427,006 comprising of accrued interest of Kshs 26,193,798,631 and Principal amount of Kshs 10,095,628,375. The Company has continued to default on repayments while there is no actionable evidence of write off.	<i>The government of Kenya through the privatization commission is in the process of writing off the loans. Management wrote to the Ministry of Finance with a view of carrying out reconciliation of the loan amount before privatization is completed. Attached session Paper no. 12 of 2012</i>	Board of Directors/ Chief Executive Officer
v) Loan from Agricultural and food Authority- Kshs 2,403,175,624.00 As at 30/6/2017 the Company had a loan from Agricultural and food Authority, for which the Company had not met its covenant terms. The principal and the interest had not been settled. Further, the Company had not remitted Kshs 856,603,000 to the Sugar Board as required by the Sugar Act No. 10 of 2001.	<i>The Company still owes formally Kenya Sugar Board the above amount for loans advanced and SDL. The cash flow constraints the company has been undergoing made it difficult to release the payment to KSB. Low sugar prices accustomed by cheap sugar imports and high cost of production affected the ability of the company to meet most of its obligations including the loans. The government of Kenya through the privatization commission is in the process of writing off the loans.</i>	Board of Directors/ Chief Executive Officer
vi) Non Remittance of taxes and other levies During the 2016/17 financial year, the Company did not clear outstanding payments of recovered balances OF Pay As	<i>The tax arrears payable to KRA has not been cleared owing to challenges related to cash flows. The prices of sugar went drastically low to almost 50% of our cost of production and therefore making it difficult</i>	Chief Executive Officer

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You Earn (P-A-Y-E), Value Added Tax (VAT), Sugar Development Levy (SDL) and withholding taxes to the respective institutions notwithstanding the growing arrears and penalties of non-Payment	<i>for us to honour our commitment of meeting the obligations as they fell due. The company has engaged the KRA office on the repayment structure once the company cash-flow improves.</i>	
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REPUBLIC OF KENYA

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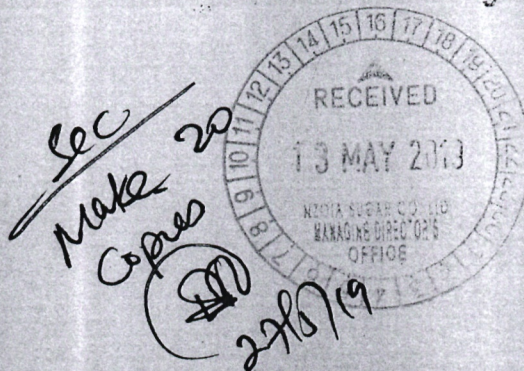
WESTERN HUB
P. O. BOX 2042 - 50100
KAKAMEGA

OFFICE OF THE AUDITOR-GENERAL

2017-2018-1-04-1161-02

9th May, 2019

The Managing Director
Nzoia Sugar Company Limited
P.O. Box 285-50200
BUNGOMA



FIM
Pls comply
23/5/19

Dear Sir,

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF NZOIA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

Transmit herewith two (2) copies of the audit report on the financial statements of Nzoia Sugar Company Limited for the year ended 30 June 2018 for your use and retention and the fee note will follow.

Please make arrangements to print the audited financial statements and submit fifteen (15) hard copies and a soft copy to the National Assembly through your parent Ministry for appropriate action in accordance with Article 229(8) of the Constitution of Kenya.

Kindly send five copies to this office.

Yours faithfully

Romanus Ochieng
Director of Audit
For: AUDITOR GENERAL