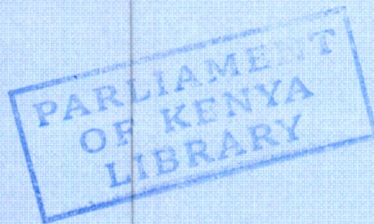


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



*Paper Laid*  
*By Hon. A. Sukaheko*  
*on Wed. 19.8.2015*  
*(pm) Mmm*

**REPORT**

**OF**

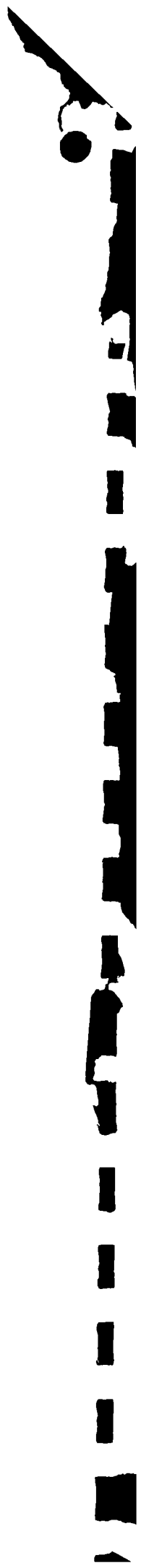


**THE AUDITOR-GENERAL**

**ON**

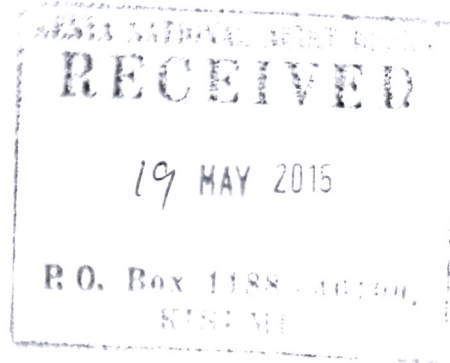
**THE FINANCIAL STATEMENTS OF SOUTH  
NYANZA SUGAR COMPANY LIMITED**

**FOR THE YEAR ENDED  
30 JUNE 2014**

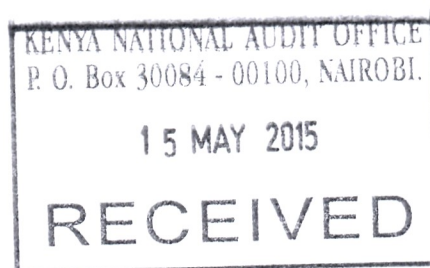




**SONYSUGAR**  
Simply The Sweetest



**SOUTH NYANZA SUGAR COMPANY LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2014**





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## **CORPORATE INFORMATION**

### **DIRECTORS**

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

Charles O. Ogalo	Chairman – Retired on 7 September 2014
Paul O. Odola, MBS	Managing Director-Retired on 31 July 2013
Jane P. Odhiambo	Managing Director-Appointed 1 August 2013
Dr. Teresa Tumwet, PhD	Alternate - Principal Secretary, Ministry of Agriculture, livestock & fisheries
Kennedy Ondieki	Alternate - Cabinet Secretary, The National Treasury
Violet S. Onyango	
Orpah A. Ogutu	
Christopher Chacha	
Joseph L. Ole Kasae	

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

### **SENIOR MANAGEMENT**

Jane P. Odhiambo	Managing Director- Appointed 1 August 2013
Mumia Koroti	Head of Finance- Appointed on 5 <sup>th</sup> May 2014
Eunice Kitche-Oduor	Company Secretary
Bernard A. Otieno	Head of Manufacturing
Ken Nyangwara	Acting Head of Marketing & Business Development
Gabriel O. Nyangweso	Acting Head of Agriculture
Janet O. Odingo	Head of Human Resources
Duncan Waga	Head of ICT –Appointed on 10 <sup>th</sup> March 2014
Lilian Kagai	Head of Procurement-Appointed on 19 <sup>th</sup> March 2014

### **REGISTERED OFFICE**

PO Box 107 - 40405  
Sare-Awendo

### **BANKERS**

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

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

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

## **CORPORATE INFORMATION (CONTINUED)**

### **AUDITOR**

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

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

### **COMPANY LAWYERS**

Okongo, Wandago & Co Advocates  
**SUNA MIGORI**

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

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

## **CHAIRMAN'S REPORT**

On behalf of the Board, I have the pleasure of presenting the Annual Report and Financial Statements for the year ended 30 June 2014. The past year has been one of the most challenging for the Company, over the last five years, largely due to challenges that were both internal and external in nature.

### **The Economy**

The year 2014 saw the Kenyan economy recover from the major macro-economic challenges which included the runaway inflation rates, volatile exchange rates and high interest rates that negatively affected the economy in the previous year. The inflation declined marginally in the previous year while the Gross domestic Product (GDP) growth rate rose from 4.3% to 4.6%. The Central Bank's decision to increase the interest rates, together with the Government's fiscal prudence contributed to the restoration of economic stability. With the Country having carried out peaceful national elections, together with stabilizing macro-economic fundamentals, the economy is expected to be stable in the coming year.

### **The Sugar Industry**

Kenya's sugar industry remained challenging mainly due to unfavorable trading environment. The massive unregulated importation of cheap sugar coupled with cane poaching and product counterfeiting continued to pose a great threat to the sustainability of operations in the industry. Consequently the overall performance of the sugar industry remained weak throughout the year.

### **Results**

The financial results for the year ended 30 June 2014 were slightly worse than last year's performance. The Company posted an operating loss of Shs 381 million (2012/2013 – loss Shs 355.7 million) and a pre-tax loss of Shs 467 million (2012/2013 – loss Shs 396 million). Gross sales for the year was Shs 5.3 billion compared to Shs 5.0 billion achieved in the previous year.

### **Contribution to Government Revenue**

SonySugar continues to honour its statutory obligations. The Company's contribution to the Exchequer in taxes from value added tax (VAT), Sugar Development Levy (SDL), and others was Shs 914.2 M (2012/2013 - sh. 1,184 M).

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

### **Farmers**

The Board is well aware that one of the key stakeholders in our business are cane farmers. The Company is committed to the statutory requirement of paying cane farmers within thirty days of cane supply. During the year under review, Shs 1.1 billion (2012/13: Shs 1.6 billion) was paid to cane farmers and other related service providers including land development, contractors, weeders, cane cutters and transporters.

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

### **Corporate Social Responsibility**

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

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

### **The Board**

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

### **The Future**

A key driver of the country's economic recovery is agriculture, accounting for the largest share contribution of the Gross Domestic Product (GDP). The sugar sub sector plays a pivotal role in this industry. In an effort to restructure the sugar industry, Government has initiated a privatization process for all sugar mills that are Government owned enterprises. This is aimed at making the millers more competitive and thus strategically positioning them in readiness for the expiry of COMESA safeguards and liberalization of regional trade. Privatization Commission appointed a consultant to update the due diligence reports that was first carried out in 2009. The Board will continue to grow the business as it awaits guidance and direction from both the parent Ministry and the Privatization Commission.

The Company continues to implement the strategic plan to realize its business goals.

### **Appreciation**

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



**Violet Sally Onyango**  
**Director – For the Chairperson**

12 March  
.....2015

## MANAGING DIRECTOR'S REPORT

The year ended 30 June 2014 was a more challenging one for SonySugar, given the numerous challenges faced, key of which was uncontrolled sugar imports and product counterfeiting leading to a significant drop in sugar prices; and increased theft of Company contracted cane, negatively affecting milling cane supply.

During the year under review, revenue increased by an average of 6% to Shs 5.3 billion (2012/13 Shs 5.0 billion) mainly as a result of improved production and sugar recoveries. Pre-tax loss for the year was Shs 467 million (2012/13: loss Shs 396 million).

### Agriculture

A total of 687,508 tons of cane was harvested during the year compared to 543,592 tons the previous financial year representing an increase of 26.5%. This was attributed to increase in cane transport units and good weather.

The farming environment recorded increased cases of cane poaching by rival sugar millers resulting in harvesting of underage cane. The loss in developed cane exposed the Company to financial losses due to non-recoverability of cane investments. On a positive note, cane fires were generally low in both the Nucleus Estate and Outgrower farms compared to the previous year, and Outgrower cane yields increased to 70.55 tons/ha (69.19 tons/ha in 2012/13).

The total cane area as at 30 June 2014 was 18,594.65 hectares, 2,353.02 hectares in the Nucleus estate and 16,241.63 hectares in Outgrowers. This was an increase of 1.3% compared to the same period last year of 18,359 hectares. The increase was attributed to a vigorous cane development program to secure the key raw material for future. Further development of cane must be sustained to be able to meet the envisaged factory optimized capacity of 3,000 TCD.

### Farmers Payment

Cane farmers are key stakeholders of SonySugar and the Company is committed to passing on the benefits from cane growing as a business. During the period under review, Shs 1.1 billion was paid out to farmers, with a balance due of Kshs.506M for cane supplied for the months of March, April, May and June 2014 (2012/13 Shs 350 million). The delay in cane payments was as a result of the drop in sugar prices and revenue during the year. However, Management is committed to adhere to the requirements of Sugar Act 2001 on cane payment.

### Factory Performance

During the year, 69,627 tons of sugar was produced against last year's 49,845 tons. A rendement of 10.14% was achieved compared to last year's 9.17%. This increase was mainly due to delivery of higher quality cane and improved sugar recoveries.

During the year, factory operations were constrained due to unplanned stoppages at the cane cutters and primary cane conveyors as well as bagasse conveyors. These units experienced intermittent down time due to extended wear as the factory was overdue for annual maintenance.

### Operational Costs

The unit cost of production was lower than in the previous year as a result of higher production volumes. Total operating costs increased to Shs 4.85 billion from Shs 4.5 billion in the previous year, while cost of production per ton reduced to Shs 70,633 (2012/13: Shs. 90,817) per ton of sugar as compared to the previous financial year. The high cost of cane from Outgrower scheme coupled with higher manufacturing volumes formed the principal contributors to the overall cost of production.

## **The Market**

A total of 66,171 tons of sugar was sold during the period under review. This was 34% above the previous year's 49,520 tons. Gross turnover stood at Kshs 5.3 billion (2012/13 - Kshs 5.0 billion), 6% above same period last year. The increase was mainly as a result of higher production of sugar. As in the previous year, the molasses market was stable.

The un-controlled cross border sugar trade in the East Africa region especially Tanzania and Uganda and the competition from new millers in the South Nyanza sugar belt, affected general sales performance. Marketing initiatives focused on improving distribution and customer relations. Field sales visits were enhanced in a bid to increase market coverage and strengthen customer loyalty. These initiatives contributed to retention of key customers despite the increased competition. Brand advertising on electronic media was not carried out during the year due to cash-flow challenges.

## **Management Systems**

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

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

## **Information Communication and Technology**

The use of Information Communication Technology (ICT) continues to play a vital role in business operations. The Company is currently on course in implementing an SAP Enterprise Resource Planning System (ERP) and Agriculture Management System (AMS). It is expected that the optimisation of these systems will lead to integration of all business processes. The use of information technology has seen increased expansion of the network to cover all the core functional areas and align their services with new technologies and benchmarked standards.

## **Human Resource**

Staff strength as at June 30, 2014 stood at 1,146 permanent employees and 858 contract employees as compared to 30 June 2013 which stood at 1,198 permanent employees and 979 contract employees. A companywide skills audit was conducted for effective implementation of the job evaluation recommendations. Full implementation of the job evaluation recommendations and generation of a work plan awaits completion of the organization structure review currently in progress.

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

The Company recognizes the importance of harmonious industrial relations in realizing maximum productivity. There was constructive engagement between the union and management that ensured employee participation leading to uninterrupted Company operations. The current CBA expired in May 2013 and fresh negotiations for a new CBA commenced during the year. The training plan for the year under review was implemented, though scaled down to control costs.

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

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

### **Future Outlook and Strategy**

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

The Company expects to fully optimise the new AMS and SAP-ERP Systems in the year 2014/2015 so as to reap the benefits of automation through timely processing of farmers payments, efficient and effective communication, faster data processing and efficient reporting leading to cost savings across the business.

The Company plans to enhance its cane transport model by establishing cane trans-loading sites for efficient delivery of cane and management of post-harvest losses. Key initiatives in securing cane availability include farming of leased farms under irrigated conditions. The Company shall continue to invest in cane transport fleet, recruit more transporters and contract more cane farmers to boost cane availability. New cane varieties introduced by the Kenya Sugar Research Foundation (KESREF) which are early maturing and of high yields are being rolled out to farmers.

The Company commits to improve payment of cane proceeds to farmers by maintaining a dedicated farmers' payment account and setting aside funds towards clearing cane payments.

### **Conclusion**

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



**Jane P. Odhiambo**  
**Managing Director**

12 March .....2015

## DIRECTORS' REPORT

The Directors submit their report together with the financial statements for the year ended 30 June 2014, which discloses the state of affairs of the Company.

### Principal Activities

The Company grows sugar cane, manufactures and sells sugar.

### Results and Dividends

The net loss for the year of Shs 365,913,000 (2013: loss of Shs 352,780,000) has been deducted from retained earnings. The Directors do not recommend the payment of a dividend.

### Productions and Sales

The following are the comparative statistics of cane deliveries and sugar production for the year ended 30 June 2014.

Cane Deliveries (tons)	2014	2013
Nucleus estate	78,637	90,710
Outgrowers	608,871	452,882
<b>Total</b>	<b>687,508</b>	<b>543,592</b>
<b>Sugar Produced (tons)</b>	<b>69,627</b>	<b>49,845</b>
<b>Rendement</b>	<b>10.14%</b>	<b>9.17%</b>

### Directors

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

### Auditors

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

### Approval of Financial Statements

The financial statements were approved by the Board of Directors on 12<sup>th</sup> March 2015.

By order of the Board

  
Eunice Kitche-Oduor  
Company Secretary

12 March 2015

## STATEMENTS OF DIRECTORS' RESPONSIBILITIES

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

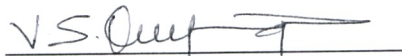
The Directors are also responsible for safeguarding the assets of the Company. They accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

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

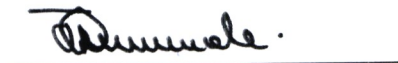
The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company at 30<sup>th</sup> June 2014 and of the Company financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the board of Directors on 12 March-----2015 and signed on its behalf by:



**Director**



**Managing Director**



**REPORT OF THE INDEPENDENT AUDITOR TO THE AUDITOR GENERAL ON THE  
FINANCIAL STATEMENTS OF SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE  
YEAR ENDED 30 JUNE 2014**

**Report on the financial statements**

We have audited the accompanying financial statements of South Nyanza Sugar Company Limited (the company) set out on pages 15 to 43. These financial statements comprise the statement of financial position at 30 June 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the financial statements**

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

**Auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**REPORT OF THE INDEPENDENT AUDITOR TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)**

**Basis for Qualified Opinion**

The company's statement of financial position at 30 June 2014 and 2013 includes receivables from Outgrowers of Shs 495,040,000, and Shs 602,945,000 respectively. The balance arises from the company's provision of agricultural inputs and services to the Outgrowers and the related accrued interest recoverable as shown under Note 16. The gross receivable from Outgrowers is an aggregation of Outgrowers' balances from the Agricultural Management Systems (AMS) and manual records (spreadsheets) maintained by the company.

Included in the gross Outgrowers receivable is a balance of Shs 583,764,000 from manual records comprising of old balances that have not yet been validated for migration to the new Agricultural Management System.

Our validation of the individual Outgrowers' balances revealed several unsupported transactions in the Outgrowers ledger, inconsistent transactions between the underlying Outgrowers files and the ledger, and transactions on the files not recorded in the ledger. A provision for impairment of receivable from Outgrowers of Shs 601,612,000 (2013: 594,732,000) was made at the end. However, due to shortcomings in the accounting records for Outgrowers transactions, it is difficult to validate the accuracy and completeness of the lists used for the estimation of the provisions for impairment.

Because of the above findings, we were unable to obtain sufficient reliable audit evidence to conclude on the accuracy, completeness and recoverability of receivables from Outgrowers and the related accrued interest income.

**Qualified Opinion**

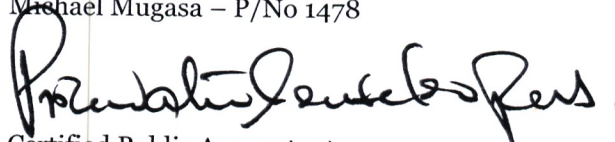
In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the financial position of South Nyanza Sugar Company Limited at 30 June 2014 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

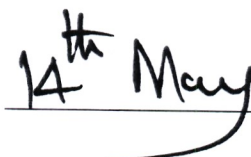
**Report on other legal requirements**

As required by the Kenyan Companies Act we report to you, based on our audit that, except for the possible effects of the matter described in the basis for qualified opinion paragraph:

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

The engagement leader responsible for the audit resulting in this independent auditor's report is CPA Michael Mugasa – P/No 1478

  
Certified Public Accountants  
Nairobi

 14<sup>th</sup> May 2015

# REPUBLIC OF KENYA

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E-Mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### **REPORT OF THE AUDITOR-GENERAL ON SOUTH NYANZA SUGAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014**

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#### REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of South Nyanza Sugar Company Limited set out on pages 15 to 44, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under the provisions of Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

#### **Management's Responsibility for the Financial Statements**

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

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

#### **Auditor-General's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Qualified Opinion**

#### **1. Receivables from Outgrowers**

The company's statement of financial position as at 30 June 2014 & 2013 shows receivables from Outgrowers of Kshs.495,040,000 and Kshs.602,945,000 respectively. The balance arises from the company's provision of agricultural inputs and services to the Outgrowers and the related accrued interest income as shown under Note 16. During the year, the Company implemented a new Agricultural Management System (AMS) and Outgrowers' balances that could be validated by the time of migration was uploaded to the new AMS. However, a significant portion of the Outgrowers' balances could not be validated and continues to be maintained in manual records (spreadsheets).

A provision of Kshs.602 million has been made by management. However, it is not possible to conclude on the sufficiency of the provision in the absence of properly validated data. Validation of the individual Outgrowers' balances revealed several unsupported transactions that had not been posted in the sub ledger by 30 June 2014. The listing does not provide a reliable, accurate and complete support for the Outgrowers' balances in the general ledger as at 30 June 2014.

In the circumstances, it was therefore not possible to obtain sufficient reliable audit evidence to conclude on the accuracy, completeness and recoverability of receivables from Outgrowers and the related accrued interest income.

#### **2. Sugar Losses**

As reported in the previous year the administrative expenses in the statement of Comprehensive Income include a provision of Kshs.7.9 million relating to losses of 144 tonnes of sugar resulting from suspected fraud in an inventory holding warehouse in

Kisumu. Although management has indicated that it has commenced legal action to recover the loss, the recovery is not certain and management has not indicated how it will mitigate against future repeated loss of inventories in the warehouse.

### **Qualified Opinion**

In my opinion, except for the possible effect of the matters described in the Basis of Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of South Nyanza Sugar Company Limited as at 30 June 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

### **Others Matters**

During the year ended 30 June 2014, the Company recorded a loss of Kshs.365,913,000 after adjusting the tax effect (2013 loss of Kshs.352,780,000), Further, the current liabilities as at 30 June 2014 of Kshs.3,014,612,000 exceeded the current assets of Kshs.2,204,004,000 as at the same date by Kshs.810,608,000. As a result, the Company is technically insolvent and the financial statements, have therefore been prepared on a going concern basis on the assumption that the Company will continue to get support from the Government and creditors.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

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



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

**Nairobi**

**08 June 2015**

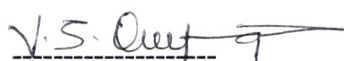
## Statement of comprehensive income

	Notes	Year ended 30 June	
		2014 Shs'000	2013 Shs'000
<b>Gross sales</b>		5,343,801	5,015,109
Indirect taxes:			
- Value Added Tax (VAT)		(737,076)	(694,988)
- Sugar Development Levy (SDL)		(177,182)	(163,245)
<b>Revenue</b>	5	4,429,543	4,156,876
Gains arising from changes in fair value less costs to sell of biological assets	13	65,715	13,377
		4,495,258	4,170,253
Cost of sales	6	(3,744,803)	(3,491,607)
<b>Gross profit</b>		750,455	678,646
Other income	7	45,651	36,272
Distribution costs		(31,214)	(67,058)
Administrative expenses		(1,146,212)	(1,003,579)
<b>Operating loss</b>		(381,320)	(355,719)
Finance income	8 (a)	-	29,553
Finance cost	8 (b)	(85,549)	(70,104)
<b>Loss before income tax</b>		(466,869)	(396,270)
Income tax credit	11	100,956	43,490
<b>Loss for the year</b>		(365,913)	(352,780)
<b>Other comprehensive income, net of tax:</b>		-	-
<b>Total comprehensive loss for the year</b>		(365,913)	(352,780)

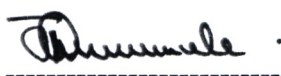
## Statement of financial position

	Notes	30 June 2014 Shs'000	30 June 2013 Shs'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	4,092,913	4,127,940
<b>Current assets</b>			
Biological assets	13	650,156	582,241
Inventories	14	814,778	520,170
Trade and other receivables	15	123,215	168,282
Receivables from Outgrowers	16	495,040	602,945
Current income tax		10,647	10,647
Cash and bank balances	17	110,168	96,985
		2,204,004	1,981,270
<b>TOTAL ASSETS</b>		<b>6,296,917</b>	<b>6,109,210</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners</b>			
Share capital	18	353,970	353,970
Revaluation reserve	19	1,557,572	1,641,950
Retained earnings		622,279	903,814
<b>Total equity</b>		<b>2,533,821</b>	<b>2,899,734</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Grants	20	110,926	80,825
Deferred income tax	21	637,558	738,514
		748,484	819,339
<b>Current liabilities</b>			
Trade and other payables	22	1,719,925	1,265,017
Borrowings	23	980,678	884,633
Bank overdraft	23	314,009	240,487
		3,014,612	2,390,137
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>6,296,917</b>	<b>6,109,210</b>

The financial statements on pages 15 to 43 were approved for issue by the board of directors on 12 March 2015 and signed on its behalf by:



Violet Sally Onyango  
 Director



Jane P Odhiambo  
 Managing Director

### Statement of changes in equity

	Notes	Share capital Shs'000	Revaluation reserves Shs'000	Retained earnings Shs'000	Total equity Shs'000
<b>Year ended 30 June 2013</b>					
At start of year		353,970	1,731,923	1,166,621	3,252,514
Profit for the year		-	-	(352,780)	(352,780)
Transfer of excess depreciation	19		(128,533)	128,533	-
Deferred income tax on transfer	19	-	38,560	(38,560)	-
Total comprehensive income		-	(89,973)	(262,807)	(352,780)
At end of year		353,970	1,641,950	903,814	2,899,734
<b>Year ended 30 June 2014</b>					
At start of year		353,970	1,641,950	903,814	2,899,734
Loss for the year		-	-	(365,913)	(365,913)
Transfer of excess depreciation	19	-	(120,540)	120,540	-
Deferred income tax on transfer	19	-	36,162	(36,162)	-
Total comprehensive income		-	(84,378)	(281,535)	(365,913)
At end of year		353,970	1,557,572	622,279	2,533,821

## Statement of cash flows

	Notes	Year ended 30 June	
		2014 Shs'000	2013 Shs'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	24	186,218	75,365
Interest received	7	42,000	68,059
Interest paid and other finance charges	8	(85,550)	(70,104)
Tax paid	11	-	(326,001)
		142,688	(252,681)
<b>Net cash generated from operating activities.</b>			
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	12	(343,743)	(871,736)
Proceeds from sale of fixed assets		5,436	16,665
		(338,307)	(855,071)
<b>Net cash used in investing activities</b>			
<b>Cash flows from financing activities</b>			
Loan received	23	96,045	36,000
Grant received	20	39,255	30,296
Repayment of borrowings		-	(9,031)
		135,300	57,265
<b>Net cash from financing activities</b>			
<b>Net decrease in cash and cash equivalents</b>		(60,339)	(1,050,487)
At start of year		(143,502)	906,985
<b>At end of year</b>		(203,841)	(143,502)

## Notes

### 1 General information

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

PO Box 107 - 40405  
Sare-Awendo

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

### 2 Summary of significant accounting policies

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

#### (a) Basis of preparation

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

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

#### Changes in accounting policy and disclosures

##### *(i) New and amended standards adopted by the Company*

The following are the significant amended standards that have been adopted by the company for the first time for the financial year beginning on or after 1 January 2014:

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the company financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment had no impact on the Company's financial statements.

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

#### *(i) New and amended standards adopted by the Company (continued)*

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The company has applied the amendment and there has been no significant impact on the company financial statements as a result.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the company.

#### *(ii) New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing this financial statement.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The company is yet to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

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

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

#### (b) Functional currency and translation of foreign currencies

##### (i) Functional and presentation currency

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

##### (ii) Transactions and balances

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

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

#### (c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax (VAT), Sugar Development Levy (SDL), returns, rebates and discounts and after eliminating sales within the Company. SDL does not apply to molasses sales.

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

Revenue is recognized as follows:

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

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

Interest income is recognized using the effective interest method.

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

#### (d) Property, plant and equipment

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

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

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

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

Buildings 25 - 40 years

Plant and machinery 10 - 15 years

Equipment and motor vehicles 3 - 8 years

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

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

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

#### (e) Impairment of non-financial assets

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

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

#### (f) Inventories

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

#### (g) Trade receivables

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

#### (h) Trade payables

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

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

#### (i) Share capital

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

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

#### (j) Cash and cash equivalents

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

#### (k) Employee benefits

##### (i) Retirement benefit obligations

The Company operates defined contribution retirement benefit scheme for its non-unionized employees while unionized employees qualify for gratuity upon retirement. The Company and all its employees also contribute to the appropriate National Social Security Fund, which are defined contribution schemes. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

##### (ii) Other entitlements

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

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

#### (l) Current and deferred income tax

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

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

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

#### (l) Current and deferred income tax (continued)

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

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

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

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

#### (m) Borrowings

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

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

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

#### (n) Provisions

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

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

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

#### (o) Grants

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

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

#### (p) Leases

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

### 3 Critical accounting estimates and judgment's

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

#### (i) Critical accounting estimates and assumptions

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

#### Biological assets

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

#### Recoverability of receivable from Outgrowers

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

## Notes (continued)

### 3 Critical accounting estimates and judgment's (continued)

#### Income taxes

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

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

#### Useful lives of plant and equipment

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

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

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

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

### 4 Financial risk management

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

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

#### Market risk

##### (i) Foreign exchange risk

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

At 30 June 2014, if the Kenyan Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been Shs 85,812 (2013: Shs 10,582) higher/lower.

## Notes (continued)

### 4 Financial risk management (continued)

#### (ii) Price risk

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

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

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

At 30 June 2014 and 30 June 2013, the Company did not have any borrowings at variable rates.

#### (iv) Credit risk

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

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

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

The amount that best represents the Company's maximum exposure to credit risk at 30 June 2014 is made up as follows:

	2014 Shs'000	2013 Shs'000
Cash at bank	110,168	96,985
Trade receivables	28,709	78,721
Receivable from out-growers	495,040	602,945
Other receivables	87,696	89,561
	721,613	868,212

## Notes (continued)

### 4 Financial risk management (continued)

#### (iv) Credit risk

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

None of the above assets are either past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced). The trade receivables which were past due but not impaired relate to a number of independent customers for whom there is no history of default. The ageing analysis of these trade receivables is as follows:

	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
Past due but not impaired:		
- by up to 30 days	29,202	41,156
- by 31 to 60 days	4,541	1,074
	<hr/>	<hr/>
Total past due but not impaired	33,743	42,230
	<hr/>	<hr/>
Total receivables:		
Carrying amount before provision for impairment loss	1,342,804	1,489,596
Provision for impairment loss	(724,549)	(718,369)
	<hr/>	<hr/>
Net carrying amount	618,255	771,227
	<hr/>	<hr/>

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

#### (v) Liquidity risk

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

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

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

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

## Notes (continued)

### 4 Financial risk management (continued)

#### (v) Liquidity risk (continued)

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

	<b>Less than 1 year Shs'000</b>
<b>At 30 June 2014:</b>	
<b>Liabilities</b>	
- borrowings	980,678
- trade and other payables	1,719,925
	<hr/>
Total financial liabilities (contractual maturity dates)	2,700,603
	<hr/>
<b>At 30 June 2013:</b>	
<b>Liabilities</b>	
- borrowings	1,125,120
- trade and other payables	1,261,224
	<hr/>
Total financial liabilities (contractual maturity dates)	2,386,344
	<hr/>

#### (vi) Capital management

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

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

	<b>2014 Shs'000</b>	<b>2013 Shs'000</b>
Total borrowings	1,294,688	1,125,120
Less: cash and cash equivalents	(110,168)	(96,985)
	<hr/>	<hr/>
Net debt	1,184,520	1,028,135
Total equity	2,533,821	2,923,609
	<hr/>	<hr/>
Total capital	3,718,341	3,951,744
	<hr/>	<hr/>
Gearing ratio	51%	26%
	<hr/>	<hr/>

**Notes (continued)**

5	<b>Revenue</b>	<b>2014</b>	<b>2013</b>
		<b>Shs'000</b>	<b>Shs'000</b>
	Analysis of revenue by category:		
	Sugar Sales	4,339,887	4,057,584
	Molasses Sales	89,656	99,292
		<u>4,429,543</u>	<u>4,156,876</u>
		<u><u>4,429,543</u></u>	<u><u>4,156,876</u></u>
	<b>6 Cost of Sales</b>		
	Cost of Cane	2,395,769	1,892,965
	Agriculture: Overheads	473,593	528,381
	Agriculture: Depreciation	151,488	134,797
	Manufacturing: Costs	731,318	799,811
	Manufacturing: Depreciation	185,832	184,357
	Stock Movement	(193,197)	(48,704)
		<u>3,744,803</u>	<u>3,491,607</u>
		<u><u>3,744,803</u></u>	<u><u>3,491,607</u></u>
	<b>7 Other income</b>		
	Interest on receivables from Outgrowers	42,000	38,506
	Gain/(loss) on disposal of fixed assets	2,197	(6,250)
	Miscellaneous income	1,454	4,016
		<u>45,651</u>	<u>36,272</u>
		<u><u>45,651</u></u>	<u><u>36,272</u></u>
	<b>8 a) Interest income on fixed deposits</b>		
	Interest income on bank deposits	-	29,553
		<u>-</u>	<u>29,553</u>
		<u><u>-</u></u>	<u><u>29,553</u></u>
	<b>b) Finance costs</b>		
	Interest expense – KSB (SDF) and GOK loan	44,208	36,756
	Interest expense – bank overdraft	41,342	33,348
		<u>85,549</u>	<u>70,104</u>
		<u><u>85,549</u></u>	<u><u>70,104</u></u>

## Notes (continued)

9 Expenses by nature	2014 Shs'000	2013 Shs'000
Raw materials and consumables used	2,395,769	2,171,720
Employee benefits expense (Note 10)	1,436,717	1,319,891
Depreciation on property, plant and equipment (Note 12)	371,137	392,072
Amortization of grant (Note 20)	9,154	8,665
Audit fees	6,160	6,160
Provision for obsolete stocks	-	44,325
Stock shortage of finished sugar	7,918	30,314
Other expenses	695,374	589,097
	<hr/>	<hr/>
<b>Total cost of sales, distribution expenses and administrative costs</b>	<b>4,922,229</b>	<b>4,562,244</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>10 Employee benefits expense</b>		
Salaries and wages	1,350,363	1,263,743
<b>Retirement benefits costs:</b>		
- Defined contribution scheme	83,483	53,187
- National Social Security Funds	2,871	2,961
	<hr/>	<hr/>
	<b>1,436,717</b>	<b>1,319,891</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>11 Income tax expense</b>		
Current income tax	-	-
Deferred income tax (Note 21)	(100,956)	(35,867)
Adjustment in respect of prior year	-	(7,623)
	<hr/>	<hr/>
Income tax expense	(100,956)	(43,490)
	<hr/> <hr/>	<hr/> <hr/>
The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
	2014 Shs'000	2013 Shs'000
<b>Loss/Profit before income tax</b>	(466,869)	(396,270)
Tax calculated at the statutory income tax rate of 30% (2013 - 30%)	(140,061)	(118,881)
Tax effect of:		
Income not subject to tax	(2,208)	-
Expenses not deductible for tax purposes	32,219	18,873
Under provision of deferred income tax in prior year	9,094	55,438
Under provision of current tax in prior year	-	1,080
	<hr/>	<hr/>
Income tax expense	(100,956)	(43,490)
	<hr/> <hr/>	<hr/> <hr/>

**Notes (continued)**

**12 Property, plant and equipment**

	Leasehold Land	Building	Plant and machinery	Trailers, tractors and motor vehicles	Office and other equipment	Roads and fencing	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs' 000	Shs'000
<b>Year ended 30 June 2013</b>								
Opening net book amount	623,982	642,716	1,409,437	666,405	96,511	29,173	202,967	3,671,191
Additions	-	3	380,559	110,201	95,852	4,777	280,344	871,736
Transfers	-	16,915	47,924	-	-	60,808	(125,647)	-
Disposals (net)	-	-	-	(22,915)	-	-	-	(22,915)
Depreciation charge	(6,414)	(25,777)	(201,850)	(143,734)	(11,684)	(2,613)	-	(392,072)
Closing net book amount	617,568	633,857	1,636,070	609,957	180,679	92,146	357,664	4,127,940
<b>At 30 June 2013</b>								
Cost or valuation	677,675	1,098,438	3,858,465	1,485,588	307,326	167,349	357,664	7,952,506
Accumulated depreciation	(60,107)	(464,581)	(2,222,395)	(875,631)	(126,647)	(75,204)	-	(3,824,566)
Net book amount	617,568	633,857	1,636,070	609,957	180,679	92,145	357,664	4,127,940

**Notes (continued)**

**12 Property, plant and equipment (continued)**

	Leasehold Land	Building	Plant and machinery	Trailers, tractors and motor vehicles	Office and other equipment	Roads and fencing	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
<b>Year ended 30 June 2014</b>								
Opening net book amount	617,568	633,857	1,636,070	609,957	180,679	92,145	357,664	4,127,940
Additions	-	-	59,748	105,511	30,762	1,819	145,903	343,743
Transfers	-	25,178	-	-	-	-	(25,178)	-
Disposals (net)	-	-	-	(7,633)	-	-	-	(7,633)
Depreciation charge	(6,414)	(29,747)	(135,701)	(152,832)	(42,374)	(4,069)	-	(371,137)
Closing net book amount	611,154	629,288	1,560,117	555,003	169,067	89,895	478,389	4,092,913

**At 30 June 2014**

Cost or valuation	677,675	1,123,616	3,918,213	1,579,511	338,088	169,18	478,389	8,284,660
Accumulated depreciation	(66,521)	(494,328)	(2,358,096)	(1,024,508)	(169,021)	(79,273)	-	(4,191,747)
Net book amount	611,154	629,288	1,560,117	555,003	169,067	89,895	478,389	4,092,913

## Notes (continued)

### 12 Property, plant and equipment (continued)

The Company's property, plant and equipment were revalued on 31 December 2010, by Lloyd Masika Limited. Valuations were made on the basis of estimated open market value. The revaluation surplus net of applicable deferred taxes was credited to other comprehensive income and is shown in other reserves in shareholder's equity.

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

	<b>2014</b>	<b>2013</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Cost	4,095,339	3,759,228
Accumulated depreciation	(2,730,090)	(2,408,454)
Net book amount	<u>1,365,249</u>	<u>1,350,774</u>

Bank borrowings are secured on properties to the value of Shs 2,891,497,000 (2013: Shs 2,891,497,000) (Note 23).

### 13 Biological assets

<b>Year ended 30 June 2014</b>	<b>Cane</b>	<b>Dairy animals</b>	<b>Total</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
At start of year	580,120	2,121	582,241
Additions at cost	162,909	-	162,909
Decrease due to harvest	(160,709)	-	(160,709)
Gains arising from changes in fair value less costs to sell of biological assets	66,134	(419)	65,715
At end of year	<u>648,454</u>	<u>1,702</u>	<u>650,156</u>

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

## Notes (continued)

### The key assumptions made concerning the future are as follows:

The valuation is based on a market price of Shs 74,250 per tonne of sugar (2013: Shs 99,740).

Estimated average cane yield 68.63tch (2013: 69.88tch)

Estimated average tonnage 109,061 tonnes (2013: 104,405tonnes)

Cane at the age of six months and below has no reliably determinable market value and has been stated at cost. Mature cane has been stated at fair value less point of sale costs.

The estimated sucrose content per tonne of mature cane (pol value) at various stages of growth will remain constant at between 9.5% and 10.5% depending on the age of the cane across the sugar belt.

The Company had 21 herds of dairy cattle at 30 June 2014 (2013: 45 herds). 23 herds of cattle were auctioned, while three died.

### 14 Inventories

	2014 Shs'000	2013 Shs'000
Factory Spares	114,570	131,416
Agriculture Spares	226,520	109,924
General Consumables	95,470	194,837
	436,560	436,177
Finished goods	212,552	30,688
Sugar in process	44,194	25,460
Goods in transit	121,472	27,845
	814,778	520,170

Factory & Agriculture spare parts are carried net of provision for obsolete inventories of Shs 168,053,000 (2013: Shs 216,053,000)

### 15 Trade and other receivables

	2014 Shs'000	2013 Shs'000
Trade receivables	59,822	115,964
Less: provision for impairment losses	(31,113)	(37,243)
Net trade receivables	28,709	78,721
Other receivables and prepayments	186,330	175,955
Less: provision for impairment losses	(91,824)	(86,394)
Net other receivables and prepayments	94,506	89,561
	123,215	168,282

## Notes (continued)

### 15 Trade and other receivables (continued)

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

	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
At start of year	123,637	111,041
Provision in the year	(700)	12,596
	<hr/>	<hr/>
At end of year	122,937	123,637
	<hr/>	<hr/>

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

### 16 Receivables from Outgrowers

	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
Billable inputs and services	837,264	941,426
Unbilled services	67,778	69,071
Accrued interest	191,610	187,180
	<hr/>	<hr/>
Gross receivables from Outgrowers	1,096,652	1,197,677
Less: provision for impairment losses	(601,612)	(594,732)
	<hr/>	<hr/>
	495,040	602,945
	<hr/>	<hr/>

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

	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
At start of year	594,732	443,370
Provision in the year	6,880	151,362
	<hr/>	<hr/>
At end of year	601,612	594,732
	<hr/>	<hr/>

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

## Notes (continued)

### 17 Cash and cash equivalents

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

	2014 Shs'000	2013 Shs'000
Cash and bank balances	110,168	96,985
Bank overdrafts (Note 23)	(314,009)	(240,487)
	<u>(203,841)</u>	<u>(143,502)</u>

### 18 Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000
Balance at 1 July 2012, 1 July 2013 and 30 June 2014	17,698	353,970

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

#### Shareholding composition:

	2014 Shs'000	2013 Shs'000
Government of Kenya	349,720	349,720
Industrial and Commercial Development Corporation	2,500	2,500
Industrial Development Bank	1,000	1,000
Mehta Group International	750	750
	<u>353,970</u>	<u>353,970</u>

### 19 Revaluation reserve

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

Year ended 30 June 2013	Shs'000
At start of year	1,731,923
Transfer of excess depreciation	(128,533)
Deferred income tax on transfer of excess depreciation	38,560
At end of year	<u>1,641,950</u>
Year ended 30 June 2014	
At start of year	1,641,950
Transfer of excess depreciation	(120,540)
Deferred income tax on transfer of excess depreciation	36,162
At end of year	<u>1,557,572</u>

## Notes (continued)

### 20 Grants

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

	2014 Shs'000	2013 Shs'000
At start of year	80,825	59,194
Additional grants received	39,255	30,296
Amortisation charge	(9,154)	(8,665)
	<hr/>	<hr/>
At end of year	110,926	80,825
	<hr/>	<hr/>

### 21 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2013: 30%). The gross movement on the deferred income tax account is as follows:

	2014 Shs'000	2013 Shs'000
At start of year	738,514	774,381
Credit to income statement (Note 11)	(100,956)	(35,867)
	<hr/>	<hr/>
At end of year	637,558	738,514
	<hr/>	<hr/>

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

Year ended 30 June 2014	1 July 2013 Shs'000	Charged/ (credited) to P/L Shs'000	Charged to equity Shs'000	30 June 2014 Shs'000
<b>Deferred income tax liabilities</b>				
Property, plant and equipment:				
- on historical cost basis	172,268	68,563	-	240,831
- on revaluation surplus	644,080	(36,162)	-	607,918
Biological assets	174,654	19,882	-	194,536
	<hr/>	<hr/>	<hr/>	<hr/>
	991,002	52,283	-	1,043,285
<b>Deferred income tax assets</b>				
Other temporary differences	(141,723)	(75,359)	-	(217,082)
Tax losses	(110,765)	(77,880)	-	(188,645)
	<hr/>	<hr/>	<hr/>	<hr/>
	(252,488)	(153,239)	-	(405,727)
	<hr/>	<hr/>	<hr/>	<hr/>
Net deferred income tax liability	738,514	(100,956)	-	637,558
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 21 Deferred income tax (continued)

Year ended 30 June 2013	1 July 2012	Charged/ (credited) to P/L	Charged to equity	30 June 2013
	Shs'000	Shs'000	Shs'000	Shs'000
<b>Deferred income tax liabilities</b>				
Property, plant and equipment:				
- on historical cost basis	113,362	58,906	-	172,268
- on revaluation surplus	682,640	(38,560)	-	644,080
Biological assets	161,089	13,565	-	174,654
	957,091	33,911	-	991,002
<b>Deferred income tax assets</b>				
Other temporary differences	(182,710)	40,987	-	(141,723)
Tax losses	-	(110,765)	-	(110,765)
	(182,710)	(69,778)	-	(252,488)
Net deferred income tax liability	774,381	(35,867)	-	738,514

### 22 Trade and other payables

	2014 Shs'000	2013 Shs'000
Trade payables	345,640	414,358
Customer payments in advance	55,362	66,427
Other payables and accrued expenses	1,318,923	784,232
	1,719,925	1,265,017

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

## Notes (continued)

<b>23 Borrowings</b>	<b>2014 Shs'000</b>	<b>2013 Shs'000</b>
KSB (SDF) loan	301,819	240,983
Government of Kenya (GOK)	678,860	643,650
Bank overdraft	314,009	240,487
	1,294,688	1,125,120

- KSB (SDF) loans of Shs 150,809,790 had fallen due for payment at 30 June 2014. Interest payable on the loans is 5% p.a.
- KSB (SDF) of Shs 51,000,000 had fallen due for payment at 30 June 2014. Interest payable @ 0% p.a
- GOK loans of Shs 192,638,750 had fallen due for payment at 30 June 2014. Interest payable @ 11% p.a.
- GOK/ODA of Shs 480,286,885 had fallen due for payment at 30 June 2014. Interest payable @ 12% p.a.
- The carrying amount of the borrowings approximates to the fair value, as the impact of discounting is not significant.
- The total loan due to KSB (SDF) includes Shs 97 million received during the year for financing factory rehabilitation (2013: 36 million).

<b>24 Cash generated from operations</b>	<b>2014 Shs'000</b>	<b>2013 Shs'000</b>
Reconciliation of profit before income tax to cash generated from operations		
Loss before income tax	(466,869)	(396,270)
Adjustments for:		
Interest income(Note 7)	(42,000)	(68,059)
Interest expense(Note 8)	85,550	70,104
Loss on disposals of property plant & equipment	2,197	6,249
Changes in biological assets(Note 13)	(67,915)	(43,185)
Depreciation (Note 12)	371,137	392,072
Grant amortization (Note 20)	(9,154)	(8,665)
Changes in working capital:		
- Inventories	(294,608)	126,769
- Trade and other debtors	45,067	(32,871)
- Outgrowers	107,905	(21,151)
- Trade and other payables	454,908	50,372
	186,218	75,365

## Notes (continued)

### 25 Related party transactions

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

#### i) Key management compensation

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

	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
Salaries and other short-term employment benefits	29,001	32,560
<b>ii) Directors' remuneration</b>		
	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
Fees for services as director	-	5,500
Other emoluments included in employee benefits (note 9)	15,438	15,122
Total remuneration of Directors of the Company	15,438	20,622

### 26 Contingent liabilities

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

The company has received a tax assessment from the Kenya Revenue Authority for corporate tax, VAT and withholding tax. The company is in the process of objecting the assessment and the directors do not believe that any significant liability will arise from the resolution of the tax matters.

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

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

	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
Farmers' cases	150,000	152,000
Staff cases	2,400	400
	152,400	152,400

The Directors have made a provision in the financial statements based on legal advice.

## Notes (continued)

### 27 Commitments

#### Capital commitments

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

	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>
Authorized but not contracted	1,154,990	324,225
Authorized and contracted	236,784	1,062,965
	<hr/>	<hr/>
	1,391,774	1,387,190
	<hr/>	<hr/>

**Five year financial performance summary**

	30-Jun-14	30-Jun-13	30-Jun-12	30-Jun-11 (Restated)	30-Jun-10 (Restated)
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
<b>Statement of comprehensive income</b>					
Revenue	4,429,543	4,156,876	5,886,966	4,953,848	3,498,342
Operating profit (loss)	(381,320)	(355,719)	998,056	635,107	269,088
Profit/(loss) before income tax	(466,869)	(396,270)	1,023,613	563,095	204,924

**Statement of financial position**

Total assets	6,296,917	6,109,210	6,651,644	5,499,671	3,674,015
Total liabilities	3,763,096	3,209,476	3,399,131	2,900,712	2,603,583
Total equity	2,533,821	2,899,734	3,252,513	2,598,959	1,070,432
Net working capital	(810,608)	(408,867)	414,897	(135,412)	(777,137)

**Five year operational performance summary**

	30-Jun-14	30-Jun-13	30-Jun-12	30-Jun-11	30-Jun-10
Milled cane (tons)	686,197	541,959	637,547	725,727	558,054
Sugar sold (tons)	69,535	49,520	63,514	73,882	51,189
Rendement (%)	10.14	9.17	10.13	10.23	9.08